

EUROPEAN NEWS

Mitterrand to intervene in defence cuts row

By Paul Betts in Paris

PRESIDENT François Mitterrand is expected to intervene directly this week in the controversy over large reductions in the country's four-year FF470bn (\$44bn) defence programme which is currently dividing the French Socialist Government. He said he intended to address this sensitive issue during a news conference on Thursday when he will outline his defence and foreign policy.

It will be his first news conference since his re-election last year and the initiative is clearly timed to coincide with the European election campaign and the forthcoming French presidency of the EC starting in July, when Mr Mitterrand will also host the summit of leading industrialised nations in Paris.

The debate on defence cuts is straining relations between Mr Michel Rocard, the Prime Minister, and Mr Jean Pierre Chevènement, the Defence Minister who is fighting against the depth of cuts proposed by the Government. Mr Mitterrand acknowledged that there would be reductions in the original 1990-93 defence procurement programme but said overall defence spending would still increase. He added that he was anxious to avoid any steps which risked demoralising the armed forces and undermining the country's defence industry.

Mr Mitterrand is also expected to use the news conference to comment on the recent controversial visit to Paris of Mr Yassir Arafat, the head of the Palestine Liberation Organisation, as well as discuss East-West relations before the Nato summit and his talks with President George Bush in Washington this month. He is also due to visit Dakar for the Franco-African summit, and Tunisia and Poland in coming weeks.

During his annual pilgrimage to Soloth in Burgundy, Mr Mitterrand also urged the Socialist Government to introduce new legislation to tighten French party political financing regulations to increase the transparency of political life. Although the previous right-wing Government had introduced legislation in 1987, Mr Mitterrand argued that it had not gone far enough and had had only a limited impact. He also indicated he would favour a reduction in the number of regions in France to create fewer but bigger regional entities which would be more competitive in the Europe of 1992.



Mitterrand: careful timing

Opposition parties expose divisions on European policy

By Ian Davidson in Paris

THE CENSURE motion tabled by France's right-wing opposition parties, attacking the Socialist Government's European policy, is scheduled to be debated in the National Assembly today. But it has so far done more to expose divisions within the opposition than to concert the Government.

Although the latter is well short of an absolute majority in the National Assembly, and thus in theory vulnerable to a censure vote, a defeat would require an improbable alliance between the conservatives and the communists. Such an alliance is doubly improbable because the purpose of the censure motion is to reproach the Government for being insufficiently pro-European.

In principle the right-wing parties have all declared their support for the motion, which has been signed by 21 Deputies from the Gaullist RPR party, 23 from the UDF centre-right umbrella grouping, and 20 from the UDC centrist party.

In reality, the reformers are invoking a little-used procedure which permits an individual Deputy, rather than an officially-recognised party group leader, to lay a censure motion against the Government.

Mr Alain Juppé, secretary general of the Gaullist party, has condemned the reformers' unorthodox procedure, and it seems probable that Gaullist Deputies will have a free vote. The motion criticises the Government for not having done enough to enable France to meet the more competitive world of the European Single Market and for failing to take initiatives to secure concrete progress towards monetary union and a true security community in Europe.

In reality, there is little doubt that the present Government is at least as genuinely committed to a European future as its conservative predecessor.

Moreover, the impact of a censure motion ostensibly supported by all the right-wing opposition can only be undermined by the fact that the conservative parties will be divided in the European Parliament elections because they will be presenting two rival lists of candidates.

The old guard of the Gaullist party may have been able to whip the young reformers into line behind the list of candidates led by Mr Giscard d'Estaing. But the CDS centrist party, led by Mr Pierre Méhaignerie, has broken away from the conservative pack, and is fielding a separate list of its own, under the leadership of Mrs Simone Veil, former conservative minister and one-time President of the European Parliament.

Anxieties about retreat haunt French industries

Proposed spending cuts threaten a sector already suffering from declining exports, writes Paul Betts

THE controversy within the Socialist Government over cuts in France's four-year FF470bn (\$44bn) defence programme is causing anxieties for the French aerospace and defence industry at a time of declining military export orders.



The issue has now turned into a serious battle of wills between Prime Minister Michel Rocard (right) and Defence Minister Jean-Pierre Chevènement (left), who has dramatised the debate in the past few days to mobilise the aerospace and defence industry against the threat of cancellation of one or more of the major components of the four year procurement programme.

The outcome of the budgetary dispute is expected to have crucial implications for the sector, which has climbed since the 1960s to third place in the western league behind the US and Britain, thanks mainly to its military production.

that the Prime Minister's latest proposals could lead to cancellations.

The defence programme cuts are likely to make life especially difficult for Dassault-Breguet because of the group's heavy dependence on its military aircraft business. Indeed, the longer-term future of Dassault-Breguet hinges on the development and production of the Rafale advanced fighter jet.

It is also likely to accelerate the shift in the balance between the military and civil sides of the French aerospace business and heighten the urgency for further restructuring in the industry.

An inspired front-page article in Le Monde last week identified four programmes which could be threatened: the new Leclerc battle tank, the Charles de Gaulle aircraft carrier, the new generation Rafale fighter jet, and the Franco-German combat helicopter.

During the last few years, the group has been forced to embark on a major restructuring and rationalisation programme in the face of stagnant military export orders and only last month announced the closure of one of its large aircraft plants at Colomers in Toulouse.

The issue of defence cuts has turned into a battle of wills between Mr Michel Rocard, the Prime Minister, and Mr Jean-Pierre Chevènement, the Defence Minister, who has palpably dramatised the debate during the last few days to mobilise the industry against any cancellation in the 1990-1993 procurement programme.

The Defence Ministry has also decided to freeze the launch of new military programmes and reduce certain existing orders for equipment until the controversial issue of defence cuts is resolved.

Although the Government has confirmed on several recent occasions its commitment to go ahead with the Rafale, the programme's future and its timetable have remained clouded with doubt, especially after the failure to find foreign partners.

The Defence Minister believes it is possible to trim FF20bn without jeopardising the major elements of the programme, in spite of the risk of delays in the timetable of some new projects and a possible reduction in the volume of orders for specific equipment. But he warned last week

the ministry has already indicated it intends to buy three instead of five Atlantic-2 naval reconnaissance aircraft from Dassault-Breguet this year, and the air force is considering buying about 25 Mirage-2000 jets from the

same group instead of 33. The latest figures of the French aerospace industry association GIFA5 also show a steady decline of the weight of the military sector in the overall turnover of the industry.

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WEDEN ANNUAL REPORT INDEX 1989

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SWEDEN ANNUAL REPORT INDEX 1989

EUROPEAN NEWS

Thatcher defends tough stance on UK 'sovereignty'

By Philip Stephens, Political Editor, in London and Tim Dickson in Brussels... MRS Margaret Thatcher, the British Prime Minister, yesterday set the tone of the Conservative platform for next month's European elections with a strong defence of her determination to retain sovereignty for Britain's parliament.

Lord Plumb set to add to Tory EC tensions

By Tim Dickson... LORD PLUMB, who is nearing the end of his term as president of the European Parliament, will tonight exacerbate the tensions on European policy inside Britain's Conservative Party in a speech to the Royal Institute for International Affairs in London.

German diplomats feel Bucharest's wrath

By Leslie Collett in Bucharest

RELATIONS between Western embassies in Bucharest and the Romanian authorities have deteriorated sharply recently. The West German embassy is the latest target of retaliation after its recent condemnation of Romania's human rights record.

After a two-week delay, West Germany last week confirmed the apparently unprovoked beating by a Romanian security guard of Mrs Julia Dreesen, the wife of the West German consul in Bucharest, while out walking near her home.

explosives aboard a Lufthansa airliner at Bucharest airport. The change was rejected as absurd by the West Germans.

The ambassador was turned back by security officials and Mr Genscher responded by criticising human rights violations in Romania.

Other embassies in Bucharest have received similar treatment. Washington protested recently after an American diplomat was taken into custody and interrogated for trying to visit a signatory of the letter to President Ceausescu.

Britain to object over plan by Brussels to legislate on smoking

By William Dawkins in Brussels

BRITAIN WILL today object to European Commission plans to curb smoking the latest of several UK protests against the Brussels authorities' perceived efforts to extend EC social policy into national territory.

Mr Kenneth Clarke, the Health Secretary, will deliver the Government's criticisms at a meeting with his 11 EC Ministerial colleagues, but will fail to summon enough support to block one of the four schemes on the table.

being done at national level. Britain accepts the principle that the Commission has the legal power to legislate on cigarette health warnings and tar content, two of the schemes before Ministers today.

Halting of work on dam angers Czechs

By Judy Dempsey in Vienna

CZECHOSLOVAKIA has responded sharply to a decision by the Hungarian government to halt all work on the controversial Gabčíkovo-Nagymaros dam by accusing Budapest of breaking international agreements.

in Hungary to cast doubts on past decisions by the country's leadership. At the weekend the Hungarian government suspended all work on the dam, due to be completed by 1995, following a campaign launched by Duna Kör, or Danube Circle, Hungary's first independent environmental movement.

New Yugoslav President

By Judy Dempsey in Vienna

A YOUNGER generation of leaders yesterday took over Yugoslavia's collective state presidency as the country faces one of its worst political and economic crises since the War.

sen by his native Slovenes in a first-ever direct popular vote, heads a presidency which consists of a representative from each of the six republics and two autonomous provinces.

Governments urged to strive for greater monetary co-ordination

By Alan Friedman and John Wyles in Venice

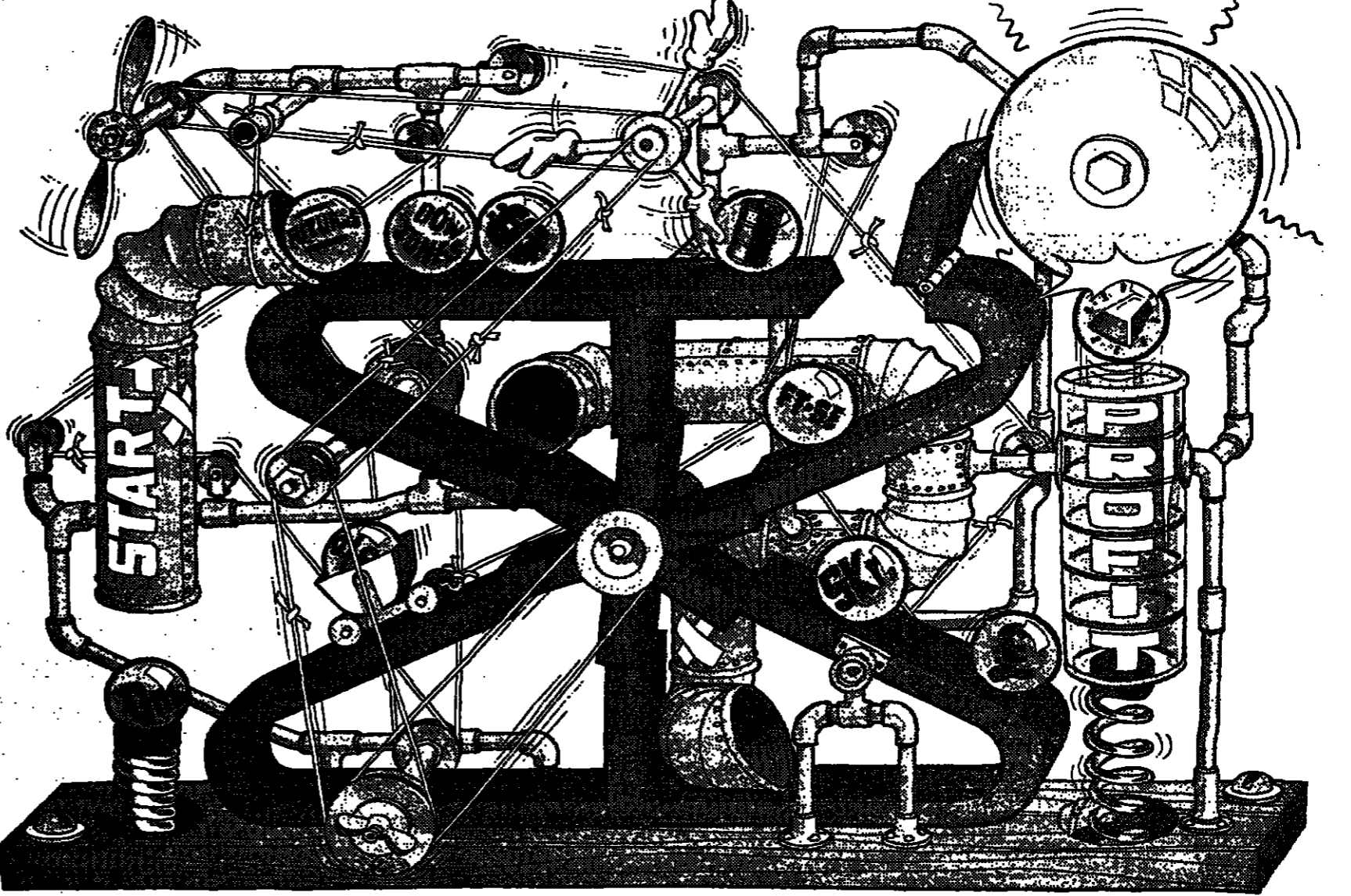
MR Giuliano Amato, the Italian Treasury minister, yesterday urged European governments to strive for greater co-ordination of national budgetary and monetary policies.



gle market would ensure equal treatment of firms from different countries. In particular Mr Solomon warned of the danger that European investment treaties might subtly discriminate against competition from non-European corporations.

The revolution in information technology was breaking down the barriers between institutions and markets. Therefore compartmentalisation of regulation into discrete sections of securities, banking and insurance will not make sense in the future.

He urged the EC to learn from the UK experience of over-detailed regulatory drafting and to avoid doing the same for European securities markets.



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OVERSEAS NEWS

African leaders launch effort to end Angolan war

By Michael Holman, Africa Editor

EIGHT African heads of state are due to meet in Luanda today to launch an unprecedented effort to end the 14-year civil conflict in Angola between the MPLA government of President Eduardo dos Santos and Mr Jonas Savimbi's Unita movement.

The initiative comes in the wake of the US-brokered settlement in Namibia, which links independence for the territory with the phased departure of 50,000 Cuban troops from Angola. As a result the MPLA faces the eventual loss of its Cuban allies, while South Africa's direct support of Unita, which was channelled through Namibia, has ended.

Scheduled to attend the Luanda meeting, hosted by President dos Santos, are the leaders of Zambia, Zaire, Zimbabwe, Mozambique, Congo, Gabon and Sao Tome and Principe. The conference will also be discussing developments in Namibia where independence elections are due to take place in November.

Speaking in London last week, Mr Nguzo Karili-Bond, Zaire's Foreign Minister, described the Luanda meeting as "historic". The leaders, he

said, would "discuss issues likely to bring lasting peace and reconciliation" in Angola "in particular and to the sub-region of southern Africa". He did not elaborate.

Unita officials have played down prospects for progress in Luanda.

In a statement issued last week in Jamba, the rebels' headquarters in southern Angola, General Demostenes Chilinguita, Unita's Chief of Staff, called for direct negotiations with the MPLA.

He ruled out what he called "the African solution" advocated by various African heads of state, which envisages Unita being incorporated into an MPLA government.

In mid-March Unita outlined its own proposals. These included a ceasefire, the reopening of the Benguela railway, direct talks with MPLA leading to the formation of a government of national unity, and multi-party elections within two years.

Mr Savimbi would not expect to be a minister in a national unitary government, but would lead Unita at the elections, say his officials.

India attempts to bridge the petrochemicals gap

K.K. Sharma in New Delhi looks at plans to enlist foreign assistance in primary processing projects

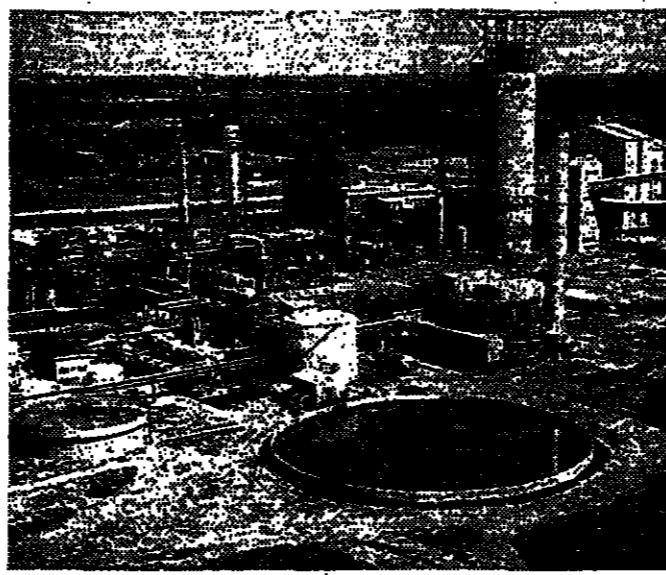
SCARCITY of funds has reined in the development of the petrochemicals industry in India and so the country continues to be heavily reliant on imports of various polymers.

Since this situation is straining the balance of payments, an enlarged role for foreign companies is now envisaged for the rapid installation of both crackers, large chemical plants producing feedstock chemicals from oil, and downstream units, secondary processing plants closer to the end user.

The main reason is that funds for public sector petrochemicals units are not available for four new naphtha or gas-based crackers needed since something like Rs200bn (\$12.5bn) will be required over the next five years if demand is to be met substantially from indigenous plants.

Since petrochemicals has been designated a "thrust" area (the only other one being electronics) and a major expansion is envisaged, the Government's present thinking is that India's established large industrial houses should be encouraged to invest in crackers and downstream projects. These will need both foreign technology and funds and so a major role is envisaged for companies in Europe and the US.

Foreign companies are expected to be allowed to make



investments of up to 40 per cent of the capital, part of which will be in plant and equipment and part in equity. To minimise demand on the limited funds available for what are highly capital-intensive projects, Indian companies are to be told that they must raise as much as they can from their foreign partners. A limit is to be put on funds that can be raised internally.

Word of the Government policy has already got around and

the result is a spate of applications from Indian companies for permission to take part in the plans for the growth of the petrochemicals industry.

"Everyone wants to set up a cracker. If they are uncertain about their chances of a cracker, they want downstream units," says a senior official involved in the petrochemical industry.

As of now, to the two existing crackers already established in India with capacities

The ICI plant at Kanpur, Uttar Pradesh, showing the naphtha steam reformer in the foreground. The need for further development of cracker plants to produce oil-derived substances such as naphtha is becoming acute in India, prompting the Government to encourage investment from foreign companies. But even this will not meet demand for ethylene which is growing at around 15 per cent a year.

of 300,000 tonnes of ethylene each, plans are to set up another two or three in the next five years with similar production capacities. Since at least one will be given to the Government-owned Indian Petrochemicals Corporation, the private sector's share is expected to be limited to one or two crackers and a number of downstream units.

The Reliance group has already been given approval for one of the cracker sites at

Hazira in Gujarat and nearly all the major industrial houses are bidding for the other two. These will probably be located in a south and north Indian site, possibly Vishakhapatnam in Andhra state - for which the front-runner is Mr Vijay Malviya of the United Breweries group - and Auraiya in Uttar Pradesh which will probably remain in the public sector.

Applications for their downstream units are already being made and pushed by other companies which are also lobbying hard for applications. Names in the waiting list include such prominent ones as the R.P. Goenka group, Birlas, Singhanias, Thapars and Vijaya Malviya. These are apart from the Ambanis of the Reliance group and Mr A.C. Muthiah and Mr Aditya Birla who are already well on their way to setting up their own petrochemical complexes.

All these will still be insufficient to meet the growing demand for ethylene and its offshoots. Current production is around 180,000 tonnes, mainly from a cracker run by Indian Petrochemicals in Gujarat state. Demand is growing at around 15 per cent a year and is expected to reach around 600,000 tonnes by 1990 and 1.2m tonnes by 1995, so considerable imports are inevitable even after the new cracker

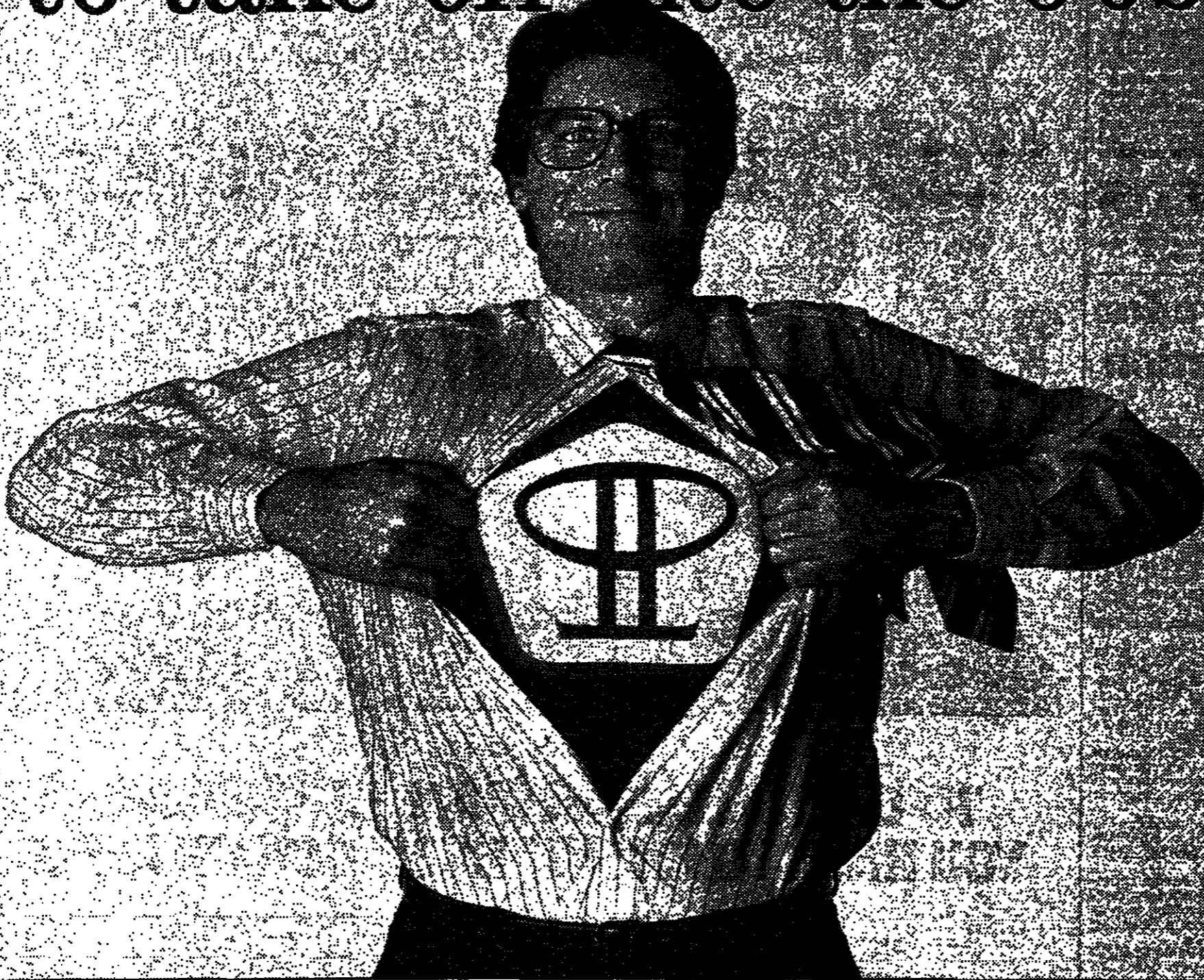
are commissioned.

Part of the foreign exchange required is to be met by exports of ethylene specially imported for the purpose. This has become possible following the quick approval of a Rs8.4bn, 100 per cent export-oriented cracker proposed to be established in Madras by the R.P. Goenka group with Linde of West Germany.

This has been followed by a similar proposal by the Reliance group for a Rs8bn unit at Gujarat, based partly on imported naphtha. Technology for this complex is expected to be provided by ICI of Britain and naphtha for it will be obtained from an oil refinery to be set up by Reliance and imports from south-east Asia. The Reliance proposal is expected to get approval in the next few weeks.

One of the main attractions of 100 per cent export-oriented units is that they can normally sell 25 per cent of their production in India. The Linde-Goenka proposal has, however, been approved and a letter of intent issued on the condition that a much smaller percentage will be sold in India. Similar terms conditions are expected to be attached to the Reliance proposal since the main reason for approving the projects is to earn foreign exchange for the country.

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PEARSON

Israeli banks agree cuts in interest rates

By Hugh Carnegie in Jerusalem

ISRAELI banks have agreed to make early and substantial cuts in short-term interest rates to avert a threat by the central bank, the Bank of Israel, to use its powers to impose a cut in the cost of credit.

The Bank of Israel acknowledges the move will cost the commercial banks, dominated by five groups, as much as shekels 500m (£162m) in after tax income this year. But it believes reducing interest rates will take the pressure off commercial borrowers in a period of economic stagnation and ultimately help to improve the banks' recent record of heavy loan loss provisions.

The issue came to a head last week when Mr Michael Bruno, the Governor of the Bank of Israel, threatened to force a cut in rates for short term non-linked shekel loans from the present average of more than 36 per cent to 30 per cent if the banks did not do so voluntarily by June 1. The banks agreed to comply at a subsequent meeting with Mr Bruno.

Unlinked shekel loans are one of the main sources of revenue for Israeli banks which are otherwise heavily constrained by restrictions on the proportion of deposits they can lend to customers. They also have to carry a heavy burden of government lending and borrowing - acting, in effect, as agents for the government at government-determined rates of interest.

This has fuelled the tendency to charge a high return on those loans that are unrestricted - the present unlinked shekel rates are some 20 per cent ahead of inflation.

To mollify the banks, Mr Bruno has agreed to consider measures to ease the restrictions on their activities and he may cut the rate at which the Bank of Israel lends to the commercial banks.

Bank profitability in 1988 was severely depressed by more than \$1m of provisions made mainly to cope with bad debts incurred by the Kibbutzim co-operative movement.

But underlying provisions were also at uncomfortably high levels, as they have been for the last three years.

The Bank of Israel is concerned to tackle such issues as the government is considering extricating itself from the majority shareholdings it has in several banks since 1983 by some form of privatisation.

Lenders take up S African exit option

By Stephen Fidler, Euromarkets Correspondent

SOUTH AFRICA'S foreign creditors have endorsed an option in the financing arrangements the country introduced in early 1987, which allows them to escape further negotiations with the South Africans and to cease being a lender to the country by 1997.

According to bankers, banks have exchanged some \$3.5bn of loans for special exit securities which will mean they will not have to be involved in talks with the South Africans over a new financing arrangement meant to cover the treatment of its foreign bank debts from July 1, 1990. This is almost 25 per cent of the bank finance that falls within the net of the interim arrangements.

In the largest conversion, Citicorp, the biggest US bank, has converted substantially all its South African exposure - \$668m - into the exit vehicle.

Most of South Africa's main creditors are said to have taken at least some of the exit opportunities, and the window remains open for those that wish to make further conversion. But the banks' moves are highly controversial, since the exit vehicle promises no principal repayment for the banks in 1990 and 1991, a critical period when the country is due to make large amounts of principal repayments to bondholders. Anti-apartheid groups will see the conversions as playing into the hands of the South African Government.

Indeed, in South Africa, the conversion is being seen as an important breakthrough in the country's battle against economic assault from abroad.

In defending their decisions to convert, bankers argue:

• While the bonds allowed a two-year period of grace for South Africa in 1990-1991, they believe it unlikely the next so-called interim arrangement will allow bank lenders to receive principal payments in 1990-91 anyway.

• Some believe that otherwise they would not be able to exit South African lending before 1997.

• Many say the exit vehicle likely to be offered in the next arrangement will not offer such advantageous terms.

The exit vehicle allows the banks to receive principal repayments between 1987 and 1990. Then from 1992, the bonds are repaid over five years in equal semi-annual instalments. Banks, normally paid a margin of 1/2 point over money market rates, can renegotiate the margin on the exit vehicle of up to 1 1/2 point.

US-UK consortium plans waste plant in Morocco

A BRITISH and US consortium hopes to build the world's largest waste processing plant in Morocco to produce electricity and other useful byproducts, an official said yesterday, AP reports.

Mr Pat Dolan, a director of the Midco consortium, said the group hoped to export 2,000 tons of waste from Europe and America to Morocco a day for processing at the plant, which would be unique in producing several byproducts at once.

Disposal plants typically produce one byproduct and the largest in existence processes 700 tons of waste a day to manufacture aggregate, a building material used to

make cement, he said. Midco has presented plans to Morocco's King Hassan, and if an agreement is reached it could build the plant in 18 months, Mr Dolan said in a telephone interview from his home in Saskatoon, Canada.

He was commenting on a report in The Guardian newspaper, which said it had been sent to the Midco plans by a man who feared what the newspaper called a lack of "proper control."

The newspaper quoted a man said to be a consortium employee as saying he believed the group did not have the expertise to carry off the project.

OVERSEAS NEWS

Gandhi proposes radical reform of Indian villages

By David Housego in New Delhi

MR Rajiv Gandhi, the Indian Prime Minister, used the last day of the current session of the Indian Parliament yesterday to introduce an amendment to the constitution that has been denounced by his opponents as an election stunt, but which could radically transform the landscape of village India.

The proposed amendment puts local self-government on a permanent footing by making it obligatory under the constitution to hold elections to village councils and other district institutions every five years. For the first time also it gives locally elected institutions considerable authority over the type of projects to be carried out and the financing of them.

Coming at the end of Mr Gandhi's five-year tenure of office, the measure has been condemned by the opposition as electioneering. It also has the opposition, which has long pressed for greater decentralisation, of a major plank of their election platform.

In response to a confidently delivered speech in the Lok Sabha yesterday, a bewildered opposition said it was not opposed to giving more power to local councils, but had strong objections to the means chosen by the Prime Minister. In particular opposition MPs accused the government of trying to undermine the power of state legislatures - where opposition or regional parties are often in the majority - by channeling funds directly to village institutions.

PLO condemns Israeli poll plan

By Our Middle East Staff

THE PALESTINE Liberation Organisation responded coldly yesterday to Israel's latest proposals for elections in the occupied territories, which were approved in the form of a 20-point plan by the Israeli cabinet at the weekend.

"It's quite clear that the PLO can't take the proposal seriously in any way," said Mr Jamil Hilal, director of the PLO information department in Tunis. "The Israeli proposal is a non-negotiable proposal."

Other Palestinians gave a more nuanced response to the Israeli election plan, but they expressed several fundamental objections which will have to be discussed with American intermediaries.

"The Israeli plan allows Palestinians to elect representatives to negotiate with Israel, but it rules out the idea of an independent Palestinian state in the West Bank and Gaza. One of Israel's principal aims is to end the 17-month-old Palestinian uprising, which has embarrassed the Israeli government abroad and demoralised the army."

"Israeli Prime Minister Yitzhak Shamir is playing for time," said Mr Bassam Abu Sharif, political adviser to Mr Yasser Arafat, the PLO chairman. "He is seeking a temporary truce. . . We do not want a mere West Bank cease-fire and permanent peace."

PLO officials cited several conditions which they said Israel should meet for the organisation to approve elections, including an Israeli withdrawal from the occupied territories, international supervision of the polls, and a guarantee that the elections and the "transitional period" proposed by the Israelis should be part of an overall process leading to a comprehensive peace settlement and Palestinian self-determination.

Although such points do not yet constitute an official



Gandhi's accused of electioneering.

and they have been overturned by more powerful state assemblies. Of most concern to villagers, funds have been siphoned off by politicians and middlemen.

The new measure provides for three tiers of elected local government - at village, district and intermediate level. They will be responsible for a wide range of development and poverty-alleviation programmes.

To prevent them being dominated by local landlords, the scheduled castes (untouchables) will have seats reserved for them in proportion to their population: in addition 38 per cent of the seats will be reserved for women.

Tokyo to probe lost US H-bomb

By Robert Thomson in Tokyo

JAPAN announced yesterday that a task force would examine the consequences of a 1965 incident in which a hydrogen bomb was lost near the Okinawa Island after a warplane rolled off an aircraft carrier en route from Vietnam to Japan.

The US has told Japan that the bomb had leaked radioactive material but said there was no danger. US research indicated that the nuclear substances that spilled into the sea were heavy enough to stay at their present depth and would not escape to contaminate a wider area.

The accident has stirred concern in Japan about the probable violation of an agreement not to introduce nuclear weapons to Japan and has prompted protests against the US military presence.

Mr Somsuke Uno, the Japanese Foreign Minister, announced the formation of the task force. He described the US account of the accident as convincing. The carrier was apparently on its way to the Japanese port of Yokosuka, which explains a reluctance to discuss the destination, as the presence of a nuclear-armed vessel in a Japanese port violates the country's nuclear policy.

Mr Gandhi said the new measures would put an end to the "vice-like grip" that "power brokers" have obtained over the system.

Opponents were quick to point out that his new attack on "power brokers" - the machine politicians who run the Congress party - coincides with his drafting of some of them back into the administration for the election campaign.

The opposition also pointed out that Mr Gandhi's new found concern with local democracy clashes with the government's record in overturning state governments and postponing local elections as in Delhi.

Prices put pressure on Japan discount rate

Speculation is mounting of interest rate rise to curb inflation, writes Stefan Wagstyl

THERE is mounting speculation in Tokyo that the Bank of Japan is preparing to raise the Official Discount Rate for the first time since 1980 to forestall a possible resurgence of inflation.

An increase of half a percentage point from the current level of 2.5 per cent in the ODR is already discounted by most investment managers, according to securities brokers. Stock prices would react sharply only if the increase was three-quarters of a point or more.

A growing number of analysts argue that the Bank of Japan, the central bank, might have raised rates already had it not been afraid of disrupting the currency markets by weakening the US dollar. But the recent rise in the US currency has eliminated much of the risk.

Nevertheless, other analysts say the central bank may still not raise the rate. They point to the bank's concern partly about the possible impact of an ODR rise on rates in other countries, and partly about accurately measuring the true danger of inflation in Japan.

The underlying rate of increase in prices has been obscured by the introduction last month of a 3 per cent consumption tax.

Also, the Japanese Ministry of Finance, which is primarily responsible for both foreign exchange policy and for the

Prices put pressure on Japan discount rate

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new tax, is understood to be opposed to an immediate rise in the ODR.

Mr Soichi Enkyo, head of national economic analysis at the Bank of Tokyo, says: "The time is ripe for the Bank of Japan to raise rates but the Ministry of Finance is cautious about it."

Nevertheless, a growing body of analysts believes the Bank of Japan's view will soon prevail.

"The indications are that the Bank of Japan will raise the ODR by the end of May," says Barclays de Zoete Wedd, the securities arm of Barclays Bank, in a report.

The central bank denies that it has changed its monetary policy in a way which would require an increase in the ODR. However, analysts have detected rising concern about inflation in public statements by Mr Satoshi Sumita, the bank's governor.

In the wake of financial liberalisation in Tokyo, changes in the ODR have less direct impact on market rates than in the days when market rates were tied to the ODR. The ODR is now some 2 percentage points below short-term market rates.

Nevertheless, any increase would have a powerful symbolic effect, as a sign of an intention to tighten money supply.

Japan Consumer price index

(% year on year)



Japanese interest rates have already risen in the open market from 4.5 per cent for three-month Euroyen deposits to 4.9 per cent - mainly in response to rising rates elsewhere. The central bank is worried that, if the yen stays weak, the gap between Japanese and US rates may force a rise in the ODR.

Bank of Japan officials say recent signs that US interest rates are easing may give Japan a breathing space - but unless the yen rises once again there is a real risk of importing inflation.

The central bank's worries about inflation date back to last autumn when the year-on-year rate of increase in consumer prices exceeded 1 per cent. While this is an insignificant

rate compared with most other industrialised countries, the Japanese authorities worry about the psychological impact of creeping inflation in a country where people are conditioned to stable prices for most things except real estate.

In March, the last month for which figures are available, prices rose 1.1 per cent. However, the introduction of consumption tax on April 1 has been exploited by many traders as an opportunity for passing on price increases. This is especially true in consumer services - price increases in barber shops, for instance, have made headlines.

In the Tokyo area prices rose by 2.6 per cent over the month. The figure for the whole country is due to be published next week.

On the international side the main concern is with oil prices, which have risen by nearly 50 per cent since the end of 1988. The success of Japan's manufacturing industry tends to obscure the country's almost-complete dependence on imported energy.

But oil analysts in Tokyo believe the worst may now be over - prices should ease over the summer as Organisation of Petroleum Exporting Countries increases production to offset losses caused by accidents in the North Sea.

Meanwhile, the yen's recent fall against the dollar may also put pressure on industry's costs. Nevertheless, an increase in the value of the yen of about 8 per cent since the beginning of the year will not dent margins unduly. Industry will be under some pressure not to put up prices at the first opportunity, given the gains it made when the yen rose from 1985-87.

The central bank is more worried about developments at home. It breathed a sigh of relief when the national average annual wage increase was set last month at 5.1 per cent. However, this applies mainly to the permanent staff of large companies. There are frequent reports of labour shortages at small enterprises, especially on building sites and in restaurants, shops and bars. Construction materials are also in short supply.

Nevertheless, there are signs that the economy is continuing to slow after spectacularly rapid growth in the middle of last year. Industrial production in March was up 8.7 per cent year-on-year, compared with a 10.9 per cent rise in the year to March 1988.

This means the pressure on prices should ease - even though economic growth remains strong by the standards of most industrialised countries.

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Argentine victor stays aloof

By Gary Mead and Robert Graham in Buenos Aires

LIKE a true actor, Mr Carlos Menem knows how to keep his audience waiting without disappointing them. Yesterday, he stayed away from the Argentine capital, Buenos Aires, savouring his victory in the presidential election, but the previous day, refusing to alter a previous engagement for a giant barbecue in the provinces. The invitations were sent out to "Meet the President", even as the polls opened on Sunday morning. Mr Menem preferred to stay

Party	1983	1987	1989
Popular vote (%)			
Peronist	40	41	47
Radical	52	37	37
Others	8	22	16
Electoral college seats:			
Peronist	259	317	316
Radical	317	232	232
Others	24	21	21

Tim Coone assesses a potential confrontation in Central America

Washington's envoy leaves Panama

MR ARTHUR DAVIS, US ambassador to Panama, returned to Washington yesterday, having been recalled for consultations by President George Bush. Before his departure, he told reporters, "I will return to Panama when conditions permit the reestablishment of normal relations between the United States and a legitimate government in Panama. I will continue to work for the creation of a free and democratic Panama." Short of breaking diplomatic relations, this is one of the strongest diplomatic measures the US can take in its fight with the regime of Gen Manuel Noriega, Panama's strongman, and signals a further deterioration in bilateral relations. Asked if there was any truth

Tension rises by the canal

TWO contrasted images emerged from Panama at the weekend. One was the serene sight offshore of giant oil tankers and bulk grain carriers tugging gently at their anchors, waiting their turn to pass through the Canal. The other was lorries of riot police cruising the streets, anticipating trouble, and on the other side of the Canal, US military personnel travelling in Panama. The treaty stipulates that vehicles of the US armed forces may move freely in Panama on official business. Aggressive enforcement by Southcom of these rights began at the weekend by the running of military convoys between defence sites. One western diplomat said: "The Americans are sick of having their noses rubbed in the dirt and are itching to hit back." Brigadier Mark Cisneros, head of operations at Southcom, last week made clear in a letter to Gen Noriega that any injury to US citizens resulting from the current tension would be viewed "extremely seriously". That has to be seen alongside threats by the Panamanian "Dignity Battalions" to carry out reprisals against US citizens in Panama. The trigger for a confrontation is set to be pulled. If the PDF chose to stand and fight, its 15,000 troops (which includes police, paramilitaries and support personnel) could pose a serious problem, even to a hugely superior US force. It would be relatively easy for them to sabotage the Canal. The 41,000 US citizens living in Panama would also be an easy target for hostage-taking. The PDF, lacking heavy weapons, would most likely disperse and fight a guerrilla war. Policing after an intervention might prove a military and political quagmire. The unilateral results of the May 7 elections gave 30 per cent support to the government candidate - more than adequate to provide the social base for a guerrilla movement. If a new police force and army had to be built from scratch, US forces would be required to police the country, involving a commitment of tens of thousands of US troops. Although a military intervention might provide a tempting, quick solution for a US government sick of the Panamanian crisis, it is plagued with risks, not to mention huge political repercussions elsewhere in Latin America. Having grasped the big stick in its war of nerves with Gen Noriega, the US is now faced with the ugly consequences of using it if the threat were ignored.

AMERICAN NEWS



The Menems triumphant: Carlos and his wife Zulema gaze into a troubled future

cautious in its preparations for any possible celebration. Mr Menem had been due to make the two-hour flight from his native La Rioja - the north-western Argentine state where he is governor - on Sunday evening. As the first results became known, at about 9 p.m., groups of Peronist supporters, with blue-and-white Argentine flags wrapped around themselves, began to congregate in front of the Peronist open-air theatre. The capital's streets, oddly silent throughout Sunday, began to resound with victory hoots from cars. Partisans of other parties, fearing trouble, left the streets to the Peronists. They shouted "Perón Perón, how great you are!" in ritual salute to the late founder of their movement, Juan Domingo Perón. Leaping into the air, the enthusiasts yelled: "If you don't jump, you're a Radical!" They were not disappointed when, at about midnight, it became clear that The President was not going to appear. Governor Menem's first loyalty was to the province. The subdued sense of festivity was in marked contrast to the evening in October 1983, when Mr Alfonsín swept to victory amid euphoric scenes that put 13 years of military dictatorship behind Argentina. He changed the cast and the play; Mr Menem will simply start a new episode, when he assumes office in December. Yesterday, another and more familiar crowd was to be found in Buenos Aires - outside the office of the money-changers. Mr Menem, a Catholic convert from the Islamic religion of his immigrant forebears, has promised to rid the country of "usury and financial speculation". Whether or not the money-changers believed their temple was to be overturned, they were still doing roaring business yesterday, elections or no election, and Argentines in the capital still showed their stronger faith was in the dollar.

Slower US growth confirmed

By Anthony Harris in Washington

REAL US industrial output rose by 0.4 per cent in April, according to Federal Reserve figures released yesterday, but the earlier estimate for March was revised down to a rise of only 0.1 per cent. The year-on-year growth figure is now 4.2 per cent, confirming other signs of slower growth. Industrial output was up more than 5 per cent year-on-year earlier this year. The rise was slightly more than market economists had forecast because of the March revision, but the new level of the index at 141.1 was slightly below expectations, and there was no market reaction. The figures are likely to reduce any pressure for policy change at the Federal Open Market Committee meeting today.

Bush seeks crackdown on firearms-related crimes

By Peter Riddell, US Editor in Washington

TOUGHER penalties for firearms-related crimes, curbs on the amount of ammunition carried in firearms and an expansion of the US federal prison system were yesterday proposed by President George Bush in his long-awaited anti-crime package. He also intends to make permanent a ban on imports of semi-automatic assault rifles not for sporting purposes. But, after pressure by the gun lobby, he has decided against any ban for similar domestically produced weapons, which account for three-quarters of those in private hands. An official said the president did not want to become mired in a "fruitless debate" about how to define assault weapons. In response to calls from police officers, the Administration is proposing legislation to ban the manufacture or sale of gun magazines containing more than 15 rounds, because such large magazines are common in criminal use of assault weapons. The proposals represent a compromise on guns. Congressional leaders having warned that the anti-crime package could face problems if suggestions were included for nationwide registration of all military assault rifles. The pro-gun National Rifle Association has stepped up its lobbying after imposition of the temporary ban on imports of such weapons. The package stresses stiffer penalties and increased resources for law enforcement. Mr Bush has urged doubling the current five-year minimum sentence for using a semi-automatic firearm in a crime, and extension of the types of murder subject to the death penalty.

World Bank urged to boost backing for privatisation

By Peter Montagnon, World Trade Editor

THE WORLD Bank should put more resources towards supporting privatisation of state-owned enterprises in the developing world, as part of a general effort to boost the role of the private sector in development. This is one of several recommendations from a special group set up last year by Mr Barber Conable, bank president, to review policies towards the private sector, and which brought together leading international business people and senior bank officials. The recommendations have been published by the bank in a report, *Developing the Private Sector*. Mr Conable said it "describes the framework and sets the agenda for the World Bank group in private sector development". Among other proposals are that the bank should expand its leading programme in support of financial market reform in its client countries, that it should do more to promote local capital market development, and that leading to national development finance institutions should be reviewed because its record is "at best mixed". The report also says that the International Finance Corporation should be promoted as the main bank group vehicle for the direct financing of private sector industrial projects, that the bank group should work to improve the climate for small business in developing countries, and that the IFC and the new Multilateral Investment Guarantee agency should strengthen their efforts to promote direct investment in developing countries. Underlying the report is the belief, which the bank notes has grown in the 1980s, that boosting the private sector through the right macroeconomic and regulatory background plays an important role in development. Even the state-planned countries are now showing a greater interest in market-oriented economic policies and the introduction of competition to their economies, it says. On privatisation, the report notes that thin local capital markets, resistance to purchases by foreign and minority investors, difficulties in setting a sale price, political obstacles and labour opposition are all impediments to privatisation. The bank needs to improve its advisory capacity, it concludes. Basic financial market reform is essential, meanwhile, for a return to solid growth, it adds.

G7 in debt cut talks

By Stephen Fidler, Euromarkets Correspondent

SENIOR officials from the Group of Seven industrialised countries and representatives from commercial banks met yesterday in New York to discuss proposals for the reduction of Third World debt. The G7 people and the banks, members of the Baker Initiative Committee, were expected to meet in all-day sessions, but officials have been keen to stress the purpose of the meeting was not negotiation but an exchange of ideas. In his March speech, calling for a new approach to the debt crisis, Mr Nicholas Brady, US Treasury Secretary, suggested that efforts be made to reduce the regulatory, tax and accounting obstacles to voluntary debt reduction. However, the US Internal Revenue Service, a Treasury department, has been criticised for a tax ruling, delivered early this month, which would severely limit the willingness of US banks to take losses on their loans to developing countries.

The figures behind the organization:

	1987	1988	Change
	SFr. Million	SFr. Million	
Advances to Customers	71,290.2	82,872.7	+ 16.2%
Customers Deposits	91,925.9	96,919.3	+ 5.4%
Total Assets	146,189.9	154,108.8	+ 5.4%
Capital and Reserves	8,760.8	9,107.3	+ 4.0%
Cash Flow	1,308.0	1,337.0	+ 2.2%
Net Profit	652.3	675.1	+ 3.5%
Number of Employees	16,828	17,477	+ 3.9%

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WORLD TRADE NEWS

Soviet Union and Egypt sign Sinai power plant deal

By Tony Walker in Cairo

EGYPT and the Soviet Union yesterday signed a \$120m "soft loan" agreement for the construction of a 900 MW power station in the Sinai Desert, in a further indication of renewed growth in economic ties between the two countries.

The agreement for the Ayun Musa power station was initiated by Mr. Konstantin Katshev, Soviet Minister for Foreign Economic Relations, and Dr. Morris Makramallah, Egypt's Minister of International Co-operation.

It follows confirmation last week of an offer of funds for the modernisation of Soviet-supplied steelworks and power plants built in the 1950s and 1960s when Moscow-Cairo ties were close. Two-way Soviet-Egyptian trade is running at about \$200m annually.

Egyptian officials said goods bartered through a special pound sterling clearing account that is used to demarcate trade between the two

countries would pay for the project. The repayment period is 12 years, with 5.5 years grace on payments of principal.

Mr. Maher Abaza, the Minister of Electricity, said that the decision in March to increase electricity prices to industry by 30-40 per cent, in line with the demands of international lending institutions had cleared the way for the disbursement of new loans.

Mr. Abaza expected that by the end of the year both the World Bank and the United States Agency for International Development would be actively involved in funding new projects. Discussions were held recently with a World Bank team on a \$180m loan for the power sector.

USAID has earmarked about \$180m for power projects this year, Mr. Abaza said. Egypt would soon call tenders for the first stage of a power project at Zafarana on the Red Sea coast, south-east of Cairo.

TI plans Taiwan chip venture

By Louise Kehoe in San Francisco

A \$250m (\$150m) semi-conductor chip plant is to be constructed in Taiwan under the terms of a joint venture agreement between Texas Instruments, the US semiconductor manufacturer, and Acer Incorporated, the largest Taiwanese computer company and a major producer of personal computer "clones."

The companies have agreed to form a privately held joint venture to manufacture Dynamic Random Access Memory (D-Ram) chips in Taiwan. Construction of the new wafer fabrication facility is expected to begin in September, with initial production scheduled for mid 1991.

Acer will provide most of the funding and will own 74 per cent of the joint venture. TI will provide some funding plus the design and manufacturing technology needed to build and operate the facility. The US company will have a 26 per cent stake in the joint venture with the option to acquire up to 51 per cent over the next five years.

Chips produced at the plant will be sold exclusively to TI, which in turn will guarantee up to 50 per cent of production to Acer, the companies said.

Joint ventures of the type forged by TI and Acer may be followed by similar ventures between US chipmakers and US computer manufacturers, government and industry officials hope.

Dumping to some, but lifeblood to users

US industry is angry at clampdown on ball-bearing imports, writes Peter Montagnon

DUMPING margins of 60 per cent are an outrage. How can a domestic industry compete against that level of unfair trade?

This is how Mr David Gridley, industry manager of the Torrington Company, of Torrington, Connecticut, justifies the case his company has successfully brought in the US against dumping of foreign ball-bearings.

The case, in which producers from nine countries, ranging from Japan and Sweden to Thailand and Romania, have been found to be selling bearings at less than fair market value, is not only one of the largest anti-dumping suits affecting annual imports of some \$60m. Just as the US action two years ago against Japanese semiconductor brought an outcry from users, the bearings case has also unleashed a storm of protest from consumers. Some say they will press for the trade law to be changed because it ignores their interests.

Among their claims are that companies should be allowed to bring dumping cases covering only products they actually manufacture, that the effect on users should be formally taken into account when determining injury to the domestic producer, and that the methodology used to calculate dumping margins should be changed to make it more objective.

On the surface, the case looks straightforward. The figures in the accompanying table show clearly why the International Trade Commission, the

US government agency, determined this month that the US industry was threatened by a growing flood of cheap imports.

With Commerce Department calculations simultaneously showing dumping margins on some products ranging up to 212.45 per cent compared with the prices of the equivalent domestic product, it is easy to conclude that imports are behind the problems being faced by companies such as Torrington. Certainly Mr Gridley is in no doubt that his industry is entitled to protection against imports.

"There was very large dumping going on in the US. That is illegal," he says. "We are not 'anti' any trading partner. We are just asking for enforcement of US trade law."

Had the product concerned been anything other than ball-bearings, that approach might have passed unchallenged. But ball-bearings are a staple part of almost every engineered product and a range of companies including such big names as Caterpillar, Hewlett Packard, General Electric and Black & Decker are furious at what they see as an unjustified attempt to make them pay for the shortcomings of the domestic industry.

One of their biggest grievances is that Torrington, which controls only about 25 per cent of the market, included in its complaint a whole range of bearings which it does not itself manufacture. Some of them are simply unavailable

from US domestic producers. Some are available only at sub-standard quality and on unreliable delivery schedules. Yet all will now cost more as a result of increased duties imposed on dumped products.

According to the American users were not so lucky. They now face vastly increased bills. So frustrated are the users that some even accuse Torrington of seeking to carve out a monopoly in the US, a charge which Mr Gridley vigorously denies.

which now operate dumping policies of their own, will eventually strike back in kind.

Moreover, to the tune of \$3bn, Caterpillar is a large exporter in its own right. Forging up its input costs is the last way of helping it to remain competitive in international markets, just at a time when the US badly needs competitive exports to combat its yawning trade deficit.

The bearings case has also raised concern over the methodology used by the Commerce Department to calculate dumping margins.

According to one Washington lawyer familiar with the process, this is tilted in favour of a positive finding of dumping. That is all right when the margins are very high, but in the bearings case where most fell into the 10 per cent to 80 per cent range, the lowest was just 0.5 per cent, a level which could have gone either way depending on the way the margin was calculated.

The users generally acknowledge that changing the rules on the basis of the bearings case alone will be difficult, although some see an opportunity in the context of the Uruguay Round of multilateral trade negotiations.

Mr Robert Mosbacher, Secretary of Commerce whose department administers the anti-dumping laws, would have to weigh up the need to make US exporters competitive by keeping their costs down with the need to ensure the survival of what are regarded as key strategic industries.

	US BEARINGS INDUSTRY			
	1985	1986	1987	1988
Import penetration (%)	18.8	20.5	21.4	24.1†
US industry workforce	21,179	19,996	19,521	19,488†
Imports (\$bn)	0.463	0.482	0.518	0.676†
US producers home sales (\$bn)	2.030	1.900	1.900	2.110†

†Figures cover first three quarters only. †First nine month figures annualised. Source: US International Trade Commission

US 'unfair traders' threat yields productive talks

By Nancy Dunne in Washington

MRS CARLA Hills, the US Trade Representative, says that the deluge of foreign government officials descending on her agency to avoid being designated "unfair traders" has produced a series of intense and productive negotiations.

In the past two weeks, officials from Japan and South Korea have come to Washington for new talks on reducing their trade surpluses - to avoid being named "priority countries" under the Super 301 provision of the new trade law.

Mrs Hills is required by law to target "priority countries" or "priority practices" for special negotiating pressure by May 30. Her recommendations are reportedly scheduled to go for White House consideration by May 15.

Foreign policy considerations are now being thrashed out in an inter-agency group, she said. A key determinant

for designation will be the markets for "maximum opportunities" for US exporters.

Mrs Hills believes the new law has been unfairly attacked by many US trading partners.

She sees designations under Super 301 as a tool of Administration policy to force markets open, and as consistent with the aims of the General Agreement on Tariffs and Trade.

"We do not contemplate using it in a bullying or unilateral fashion," she said, adding that US successes in opening the Japanese beef and citrus markets have benefited the Australians and Italians as well as Americans.

"There will be no surprises. There will be no practices or barriers that we have not talked about - that have not created problems, not just for us, but for the world trading system."

Japanese to try to convince US they have honoured trade deals

"WAS THERE anything wrong with my arguments? Was my presentation good?"

An interview with this journalist over, a senior official at Japan's Ministry of Posts and Telecommunications sought guidance in preparation for what will be a torrid trade week for the ministry and the country, Robert Thomson writes from Tokyo.

In coming days, the official hopes to convince a sceptical US audience that the ministry has honoured past telecommunications trade agreements - and that the US should not impose the first of what could

be many punitive tariffs on Japanese products in this present round of trade friction.

The telecommunications problem - in particular, an argument over mobile telephones - is the most threatening of a series of trade disputes that have convinced Japanese officials the Bush Administration is more partial to anti-Japanese trade sentiments in Congress than its predecessor.

They expect that by the end of this week, Japan will be on list of countries to be pursued as "unfair traders" under the Super 301 clause.

These problems accompany

embarrassing revelations about a lost H-bomb off Japan. The disclosures include evidence that the US brings nuclear weapons into the country illegally and routinely. There is also lingering resentment here over what is perceived here as a breach of trust the FSX fighter.

Foreign diplomats are curious to see how far the US can push Japan, before Japanese belligerence signals a fundamental change in the relationship.

US Department of Agriculture officials have just added to the list of alleged trade

grievances by asking for a meeting early next month in Tokyo to discuss wood and paper imports. The department said high tariffs, overly restrictive building codes, and unfair classification systems hinder the sales of such products.

By that meeting, punitive tariffs of 100 per cent on Japanese goods as diverse as copiers and cosmetics - 54 products are on a hit-list - could already be in place - unless the Ministry of Posts and Telecommunications convinces the US that it has abided by 1985 agreements to open the Japanese market.

The ministry expects to meet senior representatives of Motorola this week but has made clear that it has nothing more to offer the US company, which wants Tokyo radio frequencies for a mobile-phone network.

"We have implemented the principles underlined in the agreements. We have kept our promises. We hope that the Japanese sincerity will be understood," a senior official at the ministry said.

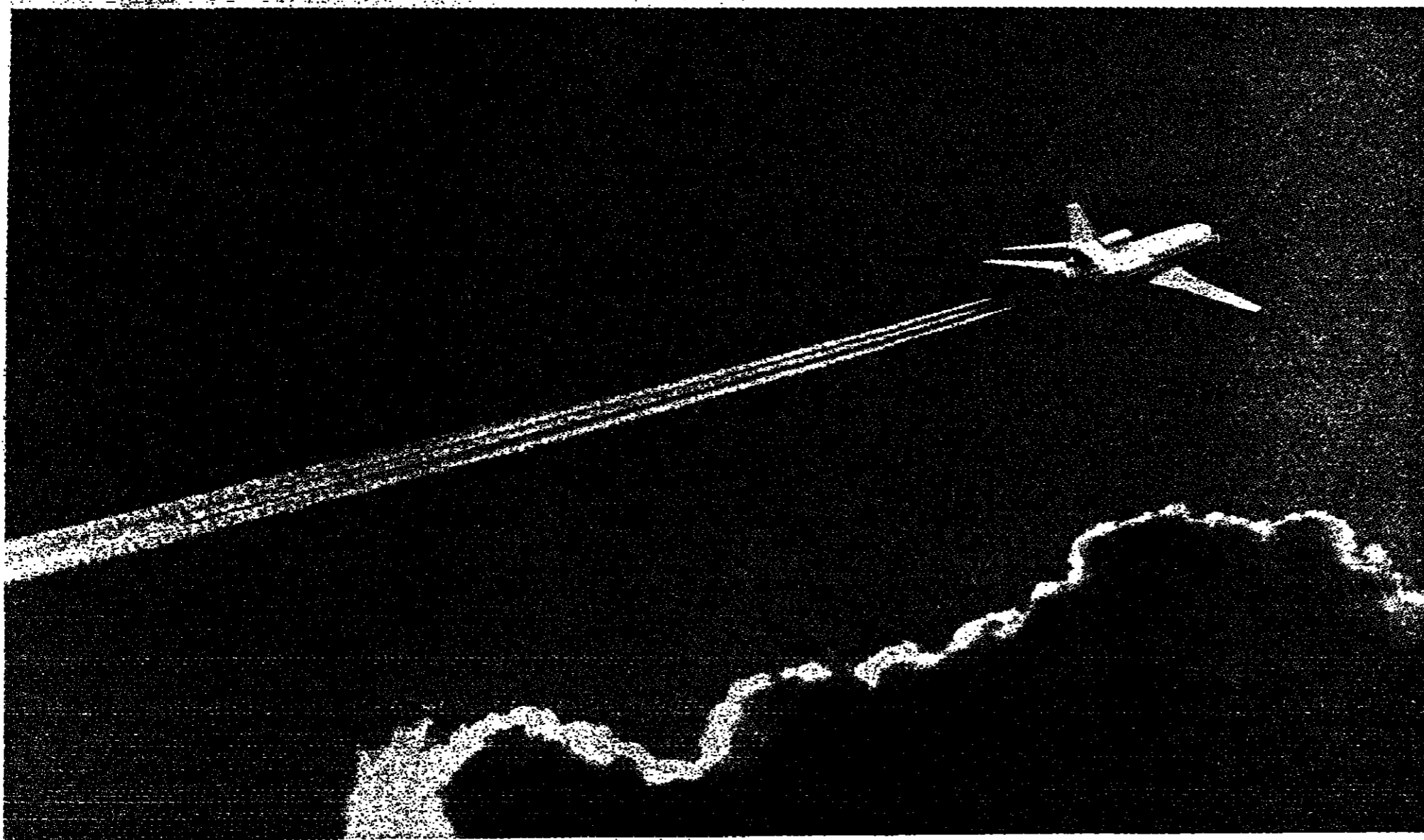
Motorola equipment can be used outside greater Tokyo, but US officials apparently do not believe the ministry's argument that there is no room in

the capital's radio frequencies for a second mobile-phone system.

NTT technology is used for the Tokyo system under an agreement to divide up the country, but the US wants the extra frequencies to allow "roaming" use of the Motorola equipment.

While the ministry says that decisions on equipment standards and procedures have been made more "transparent" to aid foreign companies, US officials argue that the decision process is murky and that Japanese companies are favoured routinely.

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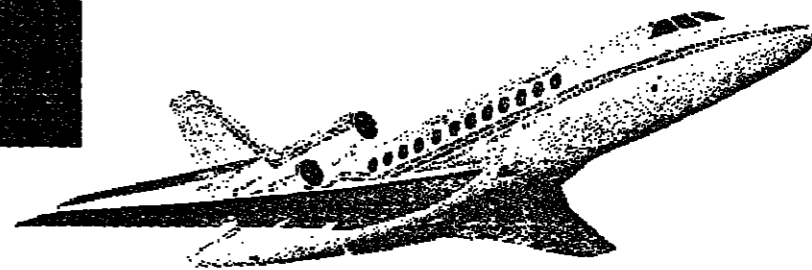
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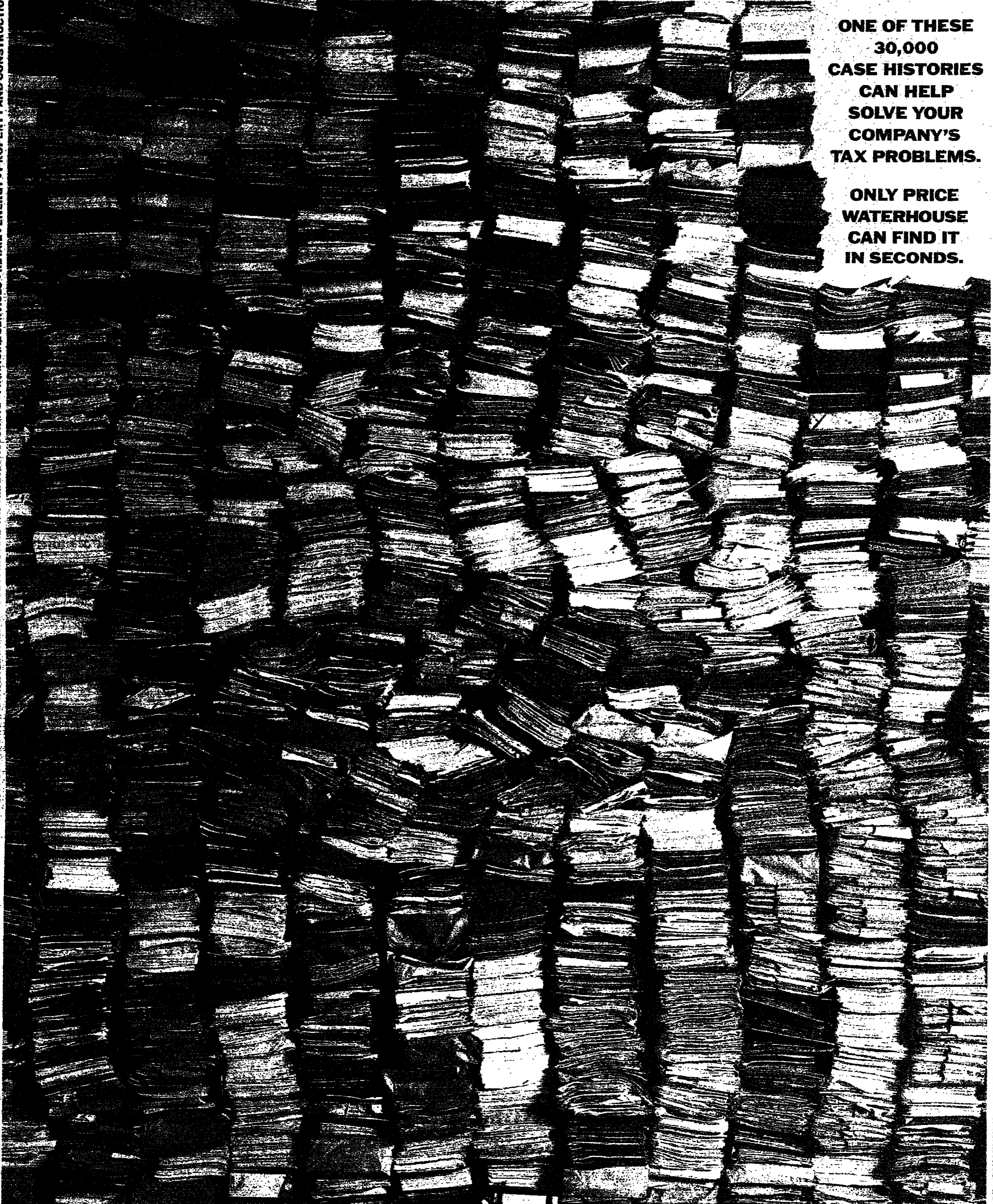
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UK NEWS

Spending squeeze will hit profits, say stores groups

By Christopher Parkes, Consumer Industries Editor

JOHN LEWIS and Bentsall's, two of Britain's department store groups, have warned that they expect the spending squeeze to hit profits this year. Kingfisher, formerly Woolworth Holdings, is also expecting a difficult time.

"I shall be surprised if 1989 is not one of those years when the profit dips," Mr Peter Lewis, chairman of the John Lewis Partnership wrote in the company's annual report, just published.

Mr Edward Bentsall, chairman of Bentsalls, a small south-east based retail group, said in his annual review: "If interest rates remain at their present level it is unlikely to be a buoyant year for retail profits."

The tough climate was

expected to continue, with further cost pressures to come, Mr Geoffrey Mulcahy, chairman of Kingfisher, said yesterday, on the release of the group's annual report.

Kingfisher, which includes the B&Q home and garden hardware chain, Comet electrical outlets and the Woolworth chain of variety stores, had detected that customers were becoming "ever more demanding and value-oriented," Mr Mulcahy added.

Profits of John Lewis and Bentsalls have risen consistently for the past five years.

Mr Lewis noted that last year expenses rose faster than sales for the first time in several years, "barring the end of a conspicuously prosperous period for the retail trade."

Last year prices in the partnership's shops, including food, rose by about 4.5 per cent, compared with the official retail prices index of 7.5 per cent, while national wage rates rose by about 8 per cent.

John Lewis's sales for the first 10 weeks of this year were about 9 per cent up on the comparable period last year.

Announcing an 8.5 per cent rise in pre-tax profits on turnover up 10 per cent for 1988, Mr Lewis said earlier this year: "We can all recognise the warning signal of a profit increase lower than a sales increase."

Bentsall's said it had put tight curbs on expenses, and planned to contain them at less than the rate of inflation.

Green code call to Strasbourg candidates

By John Hurst, Environment Correspondent

A "GREEN manifesto" calling for stricter measures to protect the environment has been drawn up by four leading environmental organisations and will be put to UK candidates in the elections to the European Parliament next month.

It calls for a doubling in the mileage efficiency of cars and funding for research to reduce air pollution and tackle the problem of global warming - the so-called greenhouse effect.

It also seeks a cut of 20 per cent by the year 2000 in the carbon dioxide emissions from fossil fuels which contribute to the greenhouse effect.

Over 50 public meetings have been organised for the next five weeks involving Euro-candidates from all parties. The intention is to secure their commitment to the proposals in the document drawn up by Friends of the Earth, The Green Alliance, World Wide Fund for Nature and the Council for the Protection of Rural England.

"We intend making these European elections the greenest yet," said Mr Charles Secrett, campaigns co-ordinator for FOE.

The proposals in the document "Blueprint for a Green Europe" also include an EC commitment to a minimum 2 per cent increase in energy efficiency each year and legislation on recycling of packaging materials.

A report from the environmental organisation Greenpeace yesterday called on the UK Government to stop all dumping of sewage sludge at sea.

Mr John Langston, secretary general of the National Society for Clean Air and Environmental Protection, also called on the Government to impose tough new controls on car exhaust emissions and adopt the three-way catalytic converter for vehicles in the UK to reduce air pollution.

He pointed out that proposed EC legislation will set tighter limits on vehicle emissions in line with those in force in Japan, Australia and the US.

Sinn Fein office hit in gun attack

By our Belfast Correspondent

ELECTION WORKERS escaped injury in a gun and rocket attack on an office of Sinn Fein, the political wing of the Irish Republican Army, in west Belfast, Northern Ireland, yesterday.

A rocket was fired through the window as election staff prepared plans for the local government election which takes place in Northern Ireland tomorrow.

The building was also sprayed with gunfire and several people were treated for shock.

Mr Danny Morrison, Sinn Fein's director of publicity, said "pro-British agents" had attempted to kill Republicans and voters, but he said the party would continue to carry out its work on behalf of the nationalist community.

There was speculation that the attack represented the first occasion that Loyalists had used a rocket in a terrorist attack in Northern Ireland.

Earlier, a Roman Catholic workman was shot dead as he arrived for work at a building site on the outskirts of Belfast.

Japanese to launch white goods in UK

By Our Consumer Industries Editor

THE long-expected Japanese entry into the UK kitchen appliance market starts next month with the launch of a range of home laundry machines, freezers and refrigerators under the Hitachi brand.

Washing machines and dryers made by Servis, one of the few remaining independent UK manufacturers, and refrigeration equipment from Vestrost of Denmark, will go on sale in a limited part of south east England.

The group was also considering similar moves elsewhere in Continental Europe, said Mr Norman Becker, Hitachi's appliance division manager.

After-sales maintenance and repairs will be handled by Servis's Homecare network, one of the largest in the country.

The range is aimed at the higher quality end of the market, at present dominated by West German brands. Prices of the washing machines, for example, range between £400 and £500, and refrigerators and freezers will cost between £270 and £430.

"We are not here to upset the apple cart," Mr Norman

Becker, Hitachi's appliance division manager, said yesterday. The company aimed to grow steadily in a controlled manner, selling on Hitachi's reputation.

The group had no immediate plans to manufacture large appliances, although it already makes TV sets, video recorders, audio equipment and microwave ovens in the UK.

Other Japanese manufacturers, including Matsushita, which have substantial appliance businesses in the Far East, are known to be interested in entering European markets. But none has so far ventured beyond existing interests in microwave ovens.

Conditions are not ideal: most markets are saturated, and competition from European manufacturers is strong. In Britain, where about 40 brands are offered, prices have not increased in real terms for several years, and sales are currently depressed by the consumer spending freeze.

Japanese attempts to break into the US business have had limited success, although they dominate the microwave oven and home electronics markets.

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Creating value

UK NEWS

Stoppage fails to bring chaos London survives road and rail transport strike

By Michael Smith, Labour Staff

CENTRAL LONDON emerged relatively unscathed yesterday in spite of suffering its worst disruption to public transport for years through 24-hour strikes by bus and underground crews and an overtime ban by British Rail workers.

Employers said that although many staff turned up late, only about 10 per cent failed to appear at all. Traffic moved slower than usual but there were no reports of the long-term standstills that had been feared.

The Department of Employment said yesterday that ministers were considering ways of curbing unofficial action of the type which has caused the underground disruption. This would probably involve making groups of workers who organise such action liable for damages to businesses.

Such a move would be a new departure for government efforts to curb industrial action. Up to now the law has relied on removing some legal immunities from unions organising industrial action without first balloting members.

Any proposals would probably be inserted in the forthcoming Green Paper (discussion document) on industrial relations, but there would be considerable legal difficulties in defining the organisation of unofficial action clearly enough.

Yesterday's action by bus crews caused cancellation of all services in central London

Government 'failed' on transport strategy

By Rachel Johnson

THE Government has failed to propose an overall strategy for London's transport problems, the Royal Town Planning Institute said yesterday.

The Transport Department's "piecemeal approach" to the problem of congestion was a "major cause for concern," it said.

The institute pointed to the proliferation of studies sponsored by the department and warned there was likely to be "significant areas of conflict between the options generated by these studies."

This piecemeal approach would be uneconomical as well as confusing, said Mr Robin Thompson, vice-president of the RTPI.

The institute, however, welcomed the initiatives for new rail lines across London proposed in the Central London Rail Study, published in January.

Of these, Mr Paul Channon, the Transport Secretary, is known to favour building the East-West "Crossrail" line, costing £2bn. This may also include building an underground line from Chelsea, in the west of London to Hack-

ney, in the north east, costing an extra £1bn.

The East-West line would run in tunnels from Liverpool Street station to Paddington and Marylebone stations in the west and the Metropolitan underground line.

The construction of the Chelsea-Hackney line is in doubt because it would need some 80 new trains and a fully equipped main depot.

The crossrail lines allow use of the existing British Rail trains and will therefore cut down on rolling stock costs.

The institute disagreed with Mr Channon, that passengers should pay a major share of infrastructure costs of the crossrail line.

"The Government should support the well-being of the capital by making a major contribution to capital costs of new public transport projects," said Mr Thompson.

A Private Bill, sponsored by an individual MP, for the line is likely to be put before Parliament by British Rail and London Regional Transport, which manages the capital's underground and bus systems, in November.

Bus crews call a halt over stress, hours, pay

By Fiona Thompson

FRIENDSHIPS have to be formed quickly at Victoria Bus Garage in central London. There's not much choice when 65 per cent of the staff have less than a year's service.

"In the last six months, 30 out of 50 conductors have come and gone," says Mr Ron Francis, aged 51, standing in the sun yesterday with five fellow pickets and a policeman.

Bus workers throughout the capital yesterday held the first of their threatened fortnightly 24-hour strikes.

The issue on the ballot paper was pay, but the six men in front of Victoria Garage stressed that the management's 7.1 per cent pay offer was just one reason why the crews were taking action.

"It's not just pay. Our working conditions over the past three years have deteriorated badly," says Mr Ian Kler, aged 48, a driver-operator on a basic £240 a week who has worked for London Buses for eight years.

"We've had 4 to 4½ per cent increases for the last two years but they haven't been cost of living rises, they were for productivity gains."

"Take overtime, for example. It used to be that any hours you worked over your rostered hours were paid as overtime. Now that's not necessarily the case. As a result, pay slips are the same as they were two years ago."

"And the schedules have got worse," says Mr Charlie Walsh, who is 40, a conductor for 12 years, on £185 basic. "The last shift used to finish at 12.30, now it's 2pm. On average, people are working an hour longer a day."

"And the job has become more stressful, with more traffic and more people. It's rush-hour all day long in central London now."

"It is not surprising that the sickness rate has gone up," says Mr Kler. "But now if you are sick for more than eight days a year, the computer clicks your name up and the disciplinary procedure starts."

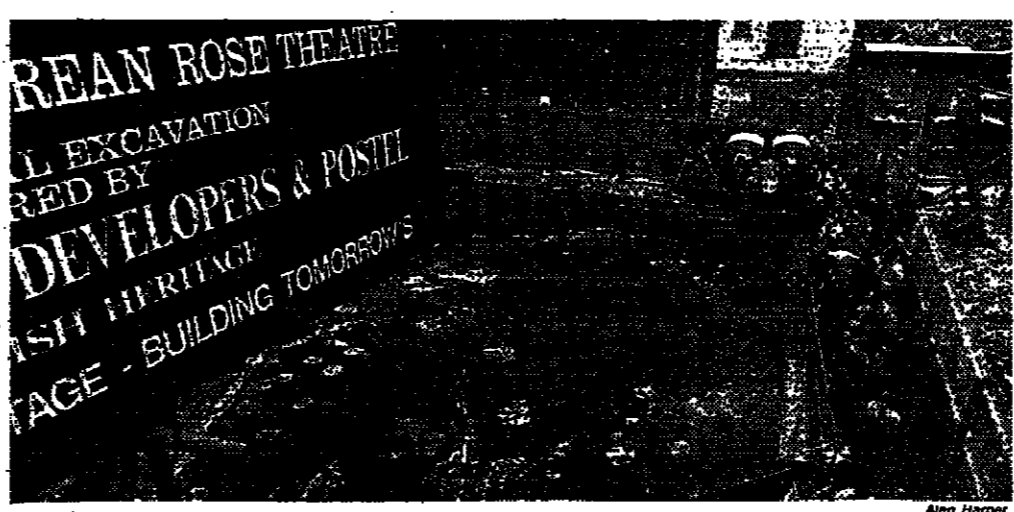
Two hundred bus staff work out of Victoria garage, operating 88 buses day and night on six routes. One of the reasons staff turnover is so high is because staff find it impossible to find affordable accommodation within a reasonable travelling distance.

"At one point last year 15 per cent of the workforce came from the north and Wales, and lived in bedsits during the week," says Mr Kler.

As the staff see it, money and resources were put into London Buses when the now-defunct Greater London Council controlled the system.

"Now," says Mr Walsh, "it is geared more and more to making money and is less and less a public service."

The 7 per cent pay offer is viewed as unacceptable. "It will not keep pace with the cost of living," says Mr Bird. "Even prices in our canteen have risen 11 per cent this year."



The blight of the Rose Paul Cheeseright looks behind the scenes

THERE are 12,000 scheduled ancient monuments in England. The difficulty for the Rose Theatre, by Southwark Bridge in London, is that it is not classified as anything at all. Had it been, then the legal position in terms of its conservation would have been clear.

The means for protecting buildings and monuments of historical interest are set out in the 1971 Town and Country Planning Act and its subsequent amendments. The three aims of this act and its precursor of 1947 were to establish a pattern of land use, give local authorities the power to protect historic buildings and encourage them to promote development.

If an ancient monument is "scheduled" or a building is "listed" then the freedom for anybody to come along, cover it up or knock it down is restricted.

What happens is that English Heritage, the state agency responsible for looking after the buildings and monuments, recommends to the Environment Department that this or that structure should be

scheduled or listed. The actual fact of listing, an administrative action, can immediately change the value of a building. If a developer enquires whether a building will be listed and receives a certificate to the effect that it will not be, that intention holds for five years.

But the English Heritage recommendations are not always accepted. English Heritage could not persuade the Government to list as many post-World War II buildings as it wanted.

The Rose Theatre is not scheduled for the very simple reason that until recently neither the archaeologists nor Imry Merchant Developers, owners of the site, knew it was there. By contrast, on the other side of the River Thames, at a site owned by Hammerson, the existence of Roman baths at Huggin Hill has been long known and indeed the baths are a scheduled monument.

If a property development company wants to undertake a project affecting a scheduled monument then it has to obtain the consent of English Heritage.

Frequently, written into the planning permission is a clause which gives the archaeologists a specified time to work over the site. Usually this archaeological work is paid for by the property company: £200,000 in the case of Imry. Indeed, last year property companies put £14m into archaeological work, compared with an English Heritage's budget of £7m.

But the tricky side of all this comes when the archaeologists find something that they had not expected. Imry has a local authority planning consent, given and received in good faith. "We can't turn the screw in a legal way," said English Heritage. The same is true in the case of Hammerson.

It is in the power of the local authority, with the consent of the Environment Secretary, to revoke or modify a planning consent. But if this is done, then there is provision for compensation to the developer for any loss or damage directly attributable to that revocation or modification. The costs would not necessarily be huge. The main element would be the value of the site.

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A CREDIT TO YOUR ORGANISATION.

UK NEWS

Japanese buy minority stake in Welsh group

By Anthony Moreton, Welsh Correspondent

JAPANESE involvement in British industry took a new turn yesterday when C Itoh, the country's leading trading house, acquired a 20 per cent stake in the privately owned Welsh electronics concern Race Group.

It is believed to be the first time a Japanese company has taken a minority equity holding in a British concern.

There have been some portfolio investments. Mr Andrew Lawson, of the Confederation of British Industry, said yesterday, "but I believe this is the first investment undertaken for strategic trading reasons."

The Race-Itoh deal was signed in London after several months of negotiations but neither Itoh nor Mr Alfred Gooding, who controls Race, would comment on the price.

All Mr Gooding would say was that the figure was "substantial." Mr Gooding's family

concern, Gooding Investments, owns 70 per cent of Race and Citicorp Venture Capital the remainder. Under the terms of yesterday's deal the Gooding holding will be diluted to 56 per cent and Citicorp's share to 24 per cent.

The deal will strengthen Race's links with Japanese companies anxious to get a footing in Europe before the integrated market of 1992.

Itoh has already introduced Race to one company and Mr Gooding expects to announce next month that production by a joint venture between them will begin in South Wales by the start of 1990.

A second agreement with a leading Japanese concern is at an advanced stage. Japanese involvement in Britain has traditionally been through direct investment, such as the Toyota car plant announced last month for Derbyshire. Some



Gooding: expansionary step

years ago Sumitomo Rubber bought Dunlop, but that was a takeover of a complete concern in trouble.

There have also been links in the financial sector, Mr Lawson said, such as that between

Mitsui and Hambros which the Japanese company eventually converted into a controlling holding.

"In these cases," he added, "the Japanese have been acquiring knowledge of market conditions before taking control. The new deal is the first to my knowledge of a strategic investment."

Race is a leading British sub-contractor of printed circuit boards to the telecommunications, motor, data processing, home electronics and office automation industries. Mr Gooding hopes to bring the company to the market next year or in 1991.

"The date depends on market conditions at the time," he said yesterday.

For Mr Gooding, the decision by C Itoh to take a stake in his privately owned Race Group is just another step along the road to building the company

into a leading international electronics group.

Four years ago Race was all but on its knees, losing 2500,000 on a turnover of 53m. It had been seriously set back by the collapse in the home computer market, which did terrible things to Acorn, its largest customer. Some sub-contractors lost a lot of money in the debacle, but by quick footwork Mr Gooding managed to extricate Race without too much financial damage.

To save the day every conceivable economy was made. But Mr Gooding's insistence on tight financial controls, aggressive marketing carried the company to a remarkably quick recovery.

The workforce is now up to 1,300 in South Wales and profit this year is expected to be between 24.5m and 28m on a turnover of between 70m and 80m.

In Brief
Poll tax leaflet 'full of omissions'

A leaflet to be delivered to 21m households in England in the Government's £1m campaign to explain the poll tax is "littered with half truths" and "pitted with omissions of fact," it was claimed in the High Court yesterday.

In particular, the leaflet amounted to "misrepresentation by omission" because it did not make clear that couples could be made liable to pay each other's poll tax, said Mr Stephen Sedley, barrister.

He was opening a judicial review in which the London Borough of Greenwich is trying to stop the Environment Department distributing the leaflet. The Community Charge (the so-called poll tax). How It Will Work For You.

Tesco to expand

Food retailer Tesco unveiled a £1bn investment plan to add 60 stores, mostly of more than 25,000 sq ft, to its existing chain of 380 in the next three years.

Distillers invests

United Distillers, the spirits subsidiary of Guinness, is to invest £15m in its grain distillery at Cameronbridge as part of a £100m investment programme for the company's Scottish operations over the next three years.

Takeover tax move

Customs & Excise department is thought to be about to allow companies in takeovers to recover value added tax on fees relating to their acquisitions, a move likely to save millions of pounds for acquisitive groups.

Liquidation called

Securities and Investments Board, central financial services watchdog, has petitioned under the Financial Services Act for the compulsory liquidation of Mildminster, a City of London investment firm which ceased trading in March.

Contact lens warning

Workers at GEC have been warned not to wear contact lenses while doing electrical work or welding, after two accidents which partially blinded two workers.

Greek life sales

Scottish Provident and Commercial Union will start selling life assurance in Athens and Thessaloniki later this year after receiving licences from the Greek Government last week.

EETPU vote

The electricians' union EETPU voted yesterday to stay out of the TUC.

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EARLY GROWTH PROGRAMME

LONDON BUSINESS SCHOOL

Selected reductions offered to protect domestic market
British Coal offers price cuts

By Maurice Samuelson

BRITISH COAL is offering to slash the prices of 20 per cent of its sales to power stations to protect a large section of its market from imports and fend off another heavy round of colliery closures.

The cuts would apply to a special tranche of coal earmarked to generate power for large industrial users of electricity. The terms would resemble those available for consumers of large quantities of gas.

The offer was revealed in London yesterday by Mr Michael Gibbons, chief fuel purchaser of Industrial Chemical Industries, Britain's biggest chemicals company, who said that it should be adopted to help keep UK manufacturing industry competitive with its European rivals.

The threat to coal sales from the forthcoming privatisation of the electricity industry sparked heated exchanges in Parliament.

Mr Tony Blair, the opposition Labour Party's energy spokesman, accused the Gov-

ernment of ignoring the cheap fuel offer because of a "policy decision" to scrap 15 per cent of the coal industry, with the loss of 15,000 mining jobs, mainly in the Midlands.

Mr Michael Spicer, Energy Under Secretary, rejected the charge and said Mr Blair was being used as a "paw" in talks still in progress.

Uncertainty about the future of the coal industry has also been intensified by the short-term nature of the contracts for electricity supply being discussed by generators and distributors of electricity.

Both sides of the industry had reached an advanced stage in working out a series of bulk electricity contracts ranging from five to 15 years, which would have also set the pattern for negotiations on power station coal supplies.

But Lord Young, Trade and Industry Secretary, said that such long contracts would have stunted the growth of competition and, as a result, contracts of three to five years

are now under negotiation. This is despite protests from other Departments that this could lower the price of the two big generating companies when they are sold off.

The cheap coal scheme is aimed at large-scale electricity users, which account for 20 - 30 per cent of national power consumption. It would be an expanded version of the arrangement in existence between 1986 and 1988 under which about 5m tonnes of coal were earmarked, at a discounted price, for electricity supplied to some 70 large industrial sites.

The Government says that kind of scheme is now redundant because electricity customers will benefit instead from the greater competition to be introduced into the privatised electricity industry.

The generating companies would be able, for the first time, to contract directly with customers who previously have bought power through the area distribution boards.

Labour to forge link with German SPD

By David Goodhart in Bonn

THE Labour Party is close to announcing an important co-operation agreement with the West German Social Democratic Party (SPD) which, its leaders hope will give further impetus to its attempts to become a modern, reforming pro-European party.

Under the agreement, initiated by the Labour Party, working groups will be set up covering specific topics and the two party leaders will hold regular summit meetings.

According to Mr Eddie Heusen, SPD spokesman, Mr Hans-Jochen Vogel, the SPD leader, will visit Mr Neil Kinnock, the Labour leader, in September in the first of these meetings.

The projected link is modelled on the relationship between the SPD and the French Socialist Party which have regular formal contacts. The four areas on which joint SPD-Labour discussions will concentrate include: regional policy, economic development and the environment, new technology and trade unions, and defence and foreign policy.

In the regional policy field senior Labour figures, led by Mr John Smith, the shadow

Chancellor, believe Labour has much to learn from the West German model of political decentralisation. There is also growing interest in Scotland and the north of England in the German Länder (states) system.

The working group on industrial relations is likely to be influenced by a parallel closeness being established between some British and German unions. The Amalgamated Engineering Union has recently started much closer co-operation with Europe's largest union IG Metall.

On defence closer collaboration between Labour and the SPD could help to resolve some of Labour's nuclear dilemmas with voices in both parties supporting the creation of a European deterrent.

Labour officials admit that they have more to learn from the SPD than vice-versa but the SPD is always keen to improve its international relationships. The Labour image will also benefit more from the association especially if the SPD becomes the main governing party in Germany next year.

Microwave TV runs into UK frequency problems

By Raymond Snoddy

THE GOVERNMENT is facing increasingly difficult technical choices on how to introduce local microwave television into the UK.

The Government yesterday published a discussion document setting out the technical options for the frequency bands that could be used for Microwave Video Distribution Systems.

It is clear that difficult decisions

have to be taken whatever options are finally chosen for the Government's stated aim to have "technologically neutral" local television franchises using cable television, MVDS, or a mixture of both.

The 2.5GHz band has already been ruled out because of the pressure of other users on that frequency and the 27-29GHz band because it does not look as attractive as 40GHz.

The legend is Lansing

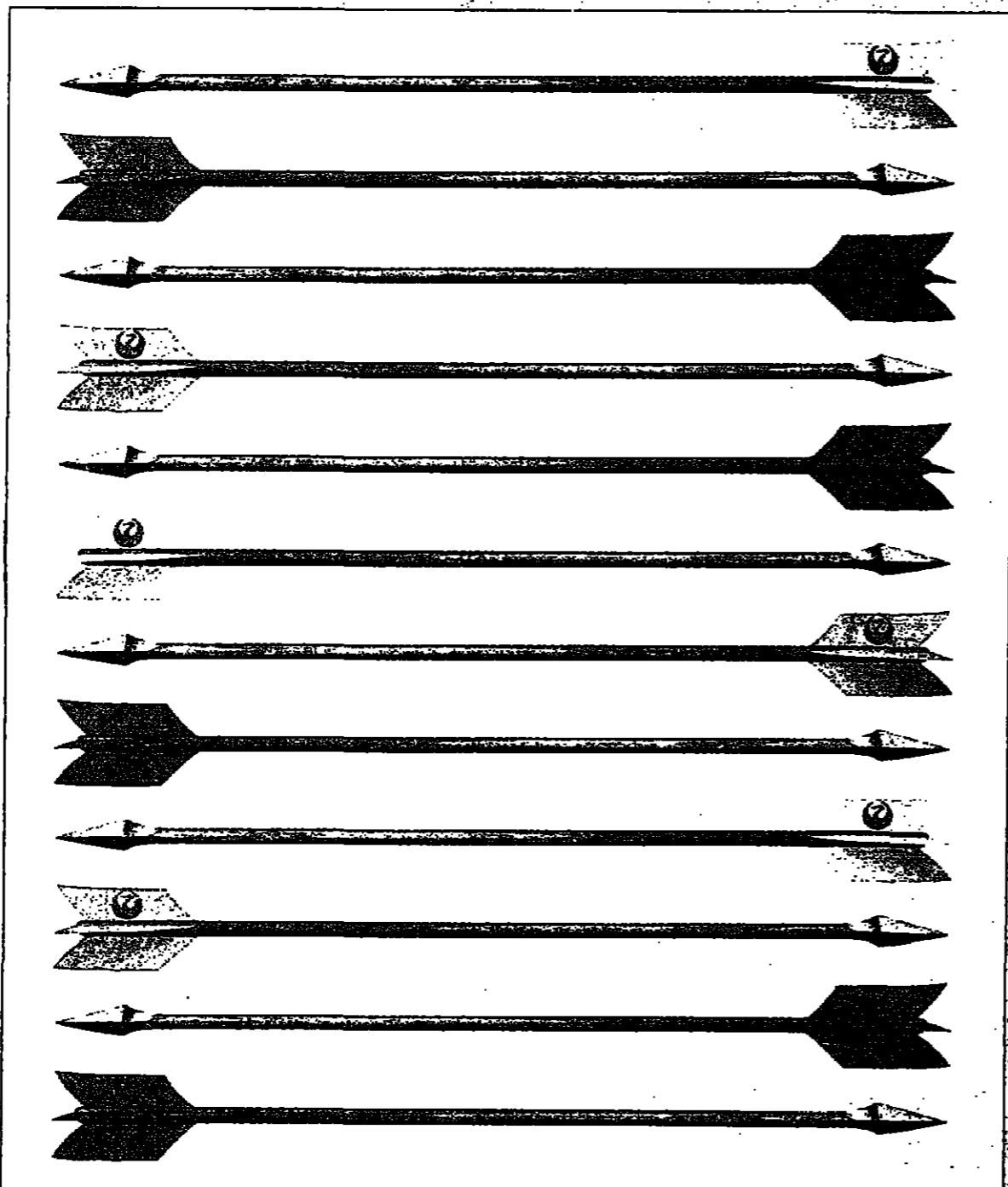


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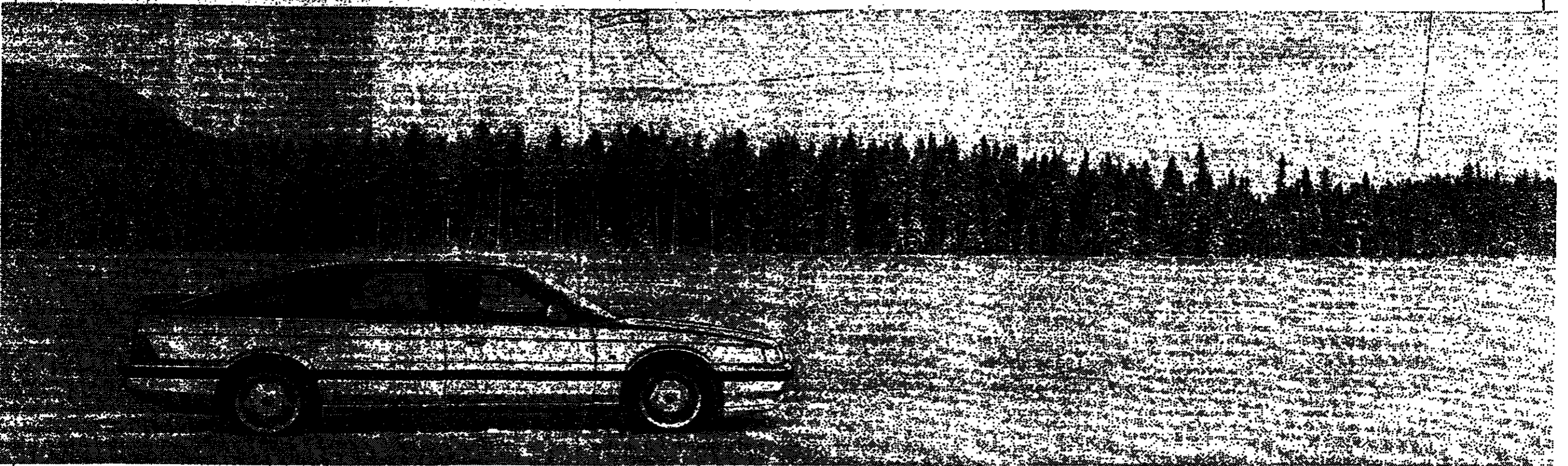
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ROVER 800 SERIES

MANAGEMENT: The Growing Business

Insolvency in the UK Directors confront a greater dilemma

Charles Batchelor examines the anxieties created by legislation

Life has become much tougher for company directors over the past three years. New insolvency legislation and tighter rules governing the conduct of directors are changing the way the honest director - as much as the crook - goes about his job.

Increasing numbers of directors are being disqualified as the new legislation begins to bite and a growing file of court rulings is clarifying just how the law will work in practice. Nine directors were disqualified in the first year in which the new legislation was in force, rising to 127 in the second year and 252 in 1988/89.

Hardly a week has gone by in the past two years without someone coming in to ask whether they have been trading wrongfully, says Stephen Adamson, head of the London insolvency department of accountants Arthur Young.

While the new legislation is not aimed at companies of any particular size it is the director of the smaller business who is more likely to be affected. By their very nature, smaller companies have a higher failure rate than larger, more established, businesses and they also lack the financial and management resources.

"The character running the small business doesn't have time to read everything that is put in front of him," says Michael Denton, senior manager in the audit and practice of accountants Cork Gully. "He is too busy getting out the orders and paying the wages."

The smaller company is also more likely to use a small local accountancy firm to carry out the audit and prepare its accounts. These firms, in the view of the larger accountancy practices, frequently lack the specialised knowledge of insolvency law to be able to advise their clients.

A major innovation of the new legislation was the creation of the offence of "wrongful trading". A director is liable for wrongful trading if, at some time before his company goes into insolvent liquidation, he knows or ought to have known that there was no reasonable prospect of avoiding liquidation.

reach the stage of wrongful trading," says Stephen Adamson, spokesman for the federation.

"You might expect a payment in a week's time but then it doesn't come through." "The situation is still unsatisfactory because wrongful trading does not include the idea of recklessness or wilfulness," comments Andrew Hutchinson, principal research executive at the Institute of Directors.

"It is simply a test of imputed knowledge. What somebody should know is a fairly slippery concept. Directors are having to work with something where there is inevitably an area of doubt."

But Graham Harp, an accountant and head of the 50-strong Disqualification Unit set up to enforce the new legislation, plays down these suggestions of arbitrariness.

"We look for something fairly wilful before we seek disqualification and even then we still have to convince the court. The odds of anyone being disqualified are pretty remote unless he has gone over the boundary of reasonable failure."



What should honest directors do to avoid problems with the new laws? "It is easy to say, but you must have good management information," advises Denton.

Call on outside professional help if you think matters are getting out of control, says Alan Bloom, a partner in Arthur Young. "I don't think directors can ever make the judgment themselves about whether they have overstepped the line. It takes a view from outside, from a firm's auditors or lawyers."

Of course, not all of a company's directors will necessarily agree that the point of no return has been reached. Directors who have personally guaranteed a bank loan may be very reluctant to call a halt.

A sole director cannot wind up the company on his own but he should make it clear and have minted what he thinks the situation of the company is," says Denton.

"Only then should he resign. If a director merely says 'Good God, the company is broke' and disappears into the sunset, a court would probably decide he had not taken all reasonable steps to minimise the loss."

With more than 200 cases currently before the courts most observers are agreed that, for the next few years at least, the number of directors being disqualified each year is set to rise further.

Growing - little by little

By Charles Batchelor

Many of Britain's most profitable growing companies are wary of very fast rates of growth and would prefer to expand more slowly, according to a survey carried out for accountants Coopers & Lybrand.

Close contact with customers and a commitment to quality in both product and service. Higher profit margins were achieved by concentrating on competing on service rather than on price or the uniqueness of the product.

systems were essential to keep down costs. Operating in markets that were growing, though companies could help themselves by watching for growth opportunities. Timing and luck also played a role.

In brief...

Robbin Maxwell-Hyslop, Conservative MP for Tiverton, Devon, has been named Politician of the Year in a small business awards scheme, the Guildhall Helping Hand Awards, organised by the National Federation of Self Employed & Small Businesses and Tolly & Harvey.

Small business training courses by satellite will soon be available throughout Britain. Starnet Project is a £450,000 pilot scheme funded by the Training Agency which will deliver courses from the Polytechnic South West in Plymouth to trainees throughout the country.

launch on June 22, to small diameter satellite receivers, their homes or places of work. The first two cost will cover business skills for small and medium-sized firms and information technology for engineers.

A two-day conference on the New European Opportunities open to the venture capital community will be held in London on May 25-26. Speakers will consider subjects including the implications of 1992, cross-border activities, international syndication and tax efficient fund structures.

Businessmen seeking commercial links with companies in Spain may find useful a directory of businesses in the province of Valencia. The directory, in Spanish, English and French, describes company activities, location and possible areas for commercial or technological co-operation.

A two-day conference entitled European Innovation and 1992: Innovation Support Services in Europe, is to be held in Nice, France, on October 26-27. The conference is organised by TII, a European professional association of more than 300 innovation support organisations.

PARTNERSHIP IN CONSULTING. We are a fast growing UK based multiservice management consultancy seeking to acquire or establish links with high quality niche specialist firms in business strategy and marketing...

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ARTS

Cannes Film Festival kicks off with deadpan derangement

Liberty, equality, fraternity. Two hundred years after the French Revolution, I am willing to present a Golden Gullie award to anyone who can find these words at the Cannes Film Festival.

And the movies? To date, there show a breeding madness for comedy. Fastest out of the starting-blocks have been Ettore Scola's Splendor and Steven Soderbergh's Sex, Lies And Videotape.

derangement, three moth-like lives flutter around the flame of an amateur video nut (James Spader) who likes to record sexual confessions. "Do you get off on watching women talk about sex?" asks beautiful, indignant Andie McDowell.

Tennessee. A Japanese couple, an Italian lady and a trio of hoodlums have kooky adventures in Elvis-town, aided by many chortles but some yawns from the audience.

Dazzlingly shot on a wide screen by Juan Ruiz-Ancheta (Bliss Of Cannes), the film is a grand-opera treatment of a soap-opera script (by Hudson's fellow Briton Michael Weller).

There is something repulsive about a Cannes audience, attending the most commercially underwritten event in the world, chortling with delight at cheap jibes about commercialism.

Italians in London

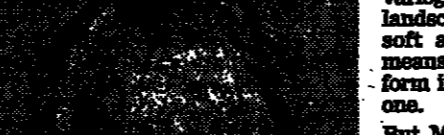
William Packer visits the Accademia Italiana and Grob Gallery

A major new gallery or institution in London is always to be welcomed, most especially if it addresses itself to a particular cultural tradition or achievement.



Still Life, 1938, by Giorgio Morandi

De Chirico, after his own distinctive fashion, moved towards a thoroughgoing surrealism, Carra, and Stroni broadened their scope to embrace a nostalgic and symbolic classicism.



Bambino Ebreo, wax over plaster, by Medardo Rosso

he was able to carry that metaphysical spirit and sensibility into work that was apparently so simple and straightforward.

insistently together as the more variegated greens and browns of the landscape. The paint is full, the texture soft and rich.

But Morandi is alone neither in being restored to the spotlight by the Italian shows nor in having a current London show to himself.

The Voysey Inheritance

ROYAL EXCHANGE, MANCHESTER

Harley Granville Barker's play is labelled a comedy, and indeed it has many good jokes and it ends, as comedies should, with the long-delayed association of a loving pair.

happy on his reluctant dishonesty. His father, now commemorated by a bronze, once had the firm square but preferred to go on making money, we hear, will Edward do this? No.

Sweet Shop Owner

THIRD EYE CENTRE, GLASGOW

Graham Swift preceded his award winning Waterland with this meticulously pointillist study of reticence.

The background of several characters is omitted or barely hinted at: I suspect the shadowy figures of the estate agents left a few spectators bewildered as to their precise purpose and function.

CORPORATE ENTERTAINMENT The Financial Times proposes to publish this survey on: 12th September 1989 For a full editorial synopsis and advertisement details, please contact: Wendy Alexander on 01-873 3524/4893 or write to her at: Number One Southwark Bridge London SE1 9HL FINANCIAL TIMES

ARTS GUIDE May 12-18 OPERA AND BALLET London Royal Opera, Covent Garden The latest showing of the splendidly exotic André Szeban production of Turandot is conducted by Stephen Barlow... Paris Chatelet, Francis Poulenc's La Voix Humaine... Rome Teatro Dell'Opera, Mauro Bolognini's production of Francesco Cilea's Adriana Lecocquer... Florence Teatro Della Pergola, John Cox's production of Mozart's Idomeneo... Cologne Opera, Cologne-Peters-Poppe's great producer Jean-Pierre Ponnelle...

Northern Lights BRIDGE LANE THEATRE This dramatic little hotch-potch of dramatic clichés from the vigorous slice-of-proletarian-life drama of the last 20 years is as appetising as a slab of the raw cod from which our heroines remove the worms occasioned by the fishes' diet of seal excreta. For this background information but not much else I am indebted to Frederick Harrison's new play brought to Battersea's Bridge Lane Theatre by Hull Truck. Production and writing seem a faded carbon-copy of Hull Truck's traditional virtues. The basic jollity of the approach falls to work up much sympathy for these three Humber-side lasses who accept a six-month fish-gutting contract in Iceland. By the time that reserved, amiable Deb lets rip a diatribe of self-loathing about doing the jobs the locals won't touch, drinking too much every week-end, and getting involved with men they neither like nor respect, all because there is nothing for them at home, it is too late in the play for us to feel concern. An incidental tragedy of the past decade is the decline into self-absorbed and vindictive hopelessness of the underprivileged, a mirror-image of the bullying selfishness of the lucky ones. The trouble with Deb and Tracey and Jenny is not that they are unlikable in their misfortunes but that they would, we feel, remain so even if their luck turned. Meanwhile, the playwright assures us indirectly that Deb is liked by everybody and Tracey is a wag, though little in their portrayal gives much indication of this. Jenny is foul-tempered and brooding, insofar as any character emerges. They alternate between raging about the claustrophobic dullness of the Icelandic village and marvelling that it's so "different". Tracey finds the brisk attentions of Per Pterersen no better than the boys back home. She is eventually bundled out of the country as a drug-user. Scowling Jenny inexplicably stops hating everything. And sturdy Deb decides to give Australia a try, prompting in this observer at least reflections on (fish) trying-pans and fires. Martin Hoyle

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INTERNATIONAL COMPANIES AND FINANCE

Hewlett's shares plunge on scaled-down forecast

By Louise Kahoe in San Francisco

HEWLETT-PACKARD's stock price plunged yesterday in heavy trading on news that the computer and electronics manufacturer is projecting lower than expected earnings for the second quarter, which ends on April 30. The stock fell by 36% in early trading, regaining some of its loss by midday to stand at \$53, down from a Friday close of \$79.

"We also experienced greater than expected pressures on gross margins and higher trade discounts, due in part to the continuing shift in the mix of sales through dealers and other value-added resellers versus direct-to-customer sales."

The announcement came as a shock to security analysts who as recently as Friday were raising their earnings estimates to more than \$1 per share, citing strong sales of the company's minicomputers and workstations.

K mart reports dip in income

By Karen Zagor in New York

K MART, the world's second largest retailing group after Sears Roebuck, yesterday reported a sharp decline in first-quarter income despite a small increase in sales.

Grupo Industrial Alfa buys back 27% of its stock

By Richard Johns in Monterrey

GRUPO Industrial Alfa, Mexico's biggest private sector holding company, now concentrating mainly on steel and petrochemicals, has succeeded in buying back 27 per cent of the company's stock issued as part of a massive debt restructuring operation in 1987.

Rio Algom sells steel units to S Korean group

By Our Financial Staff

RIO ALGOM, the diversified Canadian mining company controlled by British's RTZ, has signed an agreement to sell its specialty and stainless steel manufacturing operations to Sammi Steel of South Korea for about \$250m (\$211.8m).

LTV wins court battle over pensions ruling

By Our Financial Staff

A FEDERAL US appeals court panel has upheld a pensions ruling in favour of LTV, the US steel, energy and aerospace group, which has been in bankruptcy proceedings since seeking court protection from creditors almost three years ago.

Midlantic agrees to buy five banks from BNY

By Karen Zagor in New York

MIDLANTIC, a leading US regional bank, yesterday signed a definitive agreement to buy five banks from the Bank of New York, making it the only bank holding company with branches in New York, New Jersey and Pennsylvania.

Genentech signs research deal with UK drugs group

By Peter Marsh

GENENTECH, the US pharmaceutical and biotechnology company, is to work with Xenova, a small British drugs group, on joint studies involving new types of naturally occurring biological substances which could be used to treat heart ailments and other conditions.

Wells Fargo & Company

U.S. \$250,000,000
Floating Rate Subordinated Notes due 1997
In accordance with the provisions of the Notes, notice is hereby given that for the interest period 16th May, 1989 to 16th August, 1989 the Notes will carry an Interest Rate of 10 1/8 per annum.

GE cuts 1,400 appliance side jobs

GENERAL Electric of the US is to cut 1,400 jobs and close factories in Georgia and Maryland to consolidate electrical equipment manufacturing operations in its appliance division, Reuters reports.

Tenneco Inc

HOUSTON, TEXAS
The 1989 second quarter dividend of 76¢ per share on the Common Stock will be paid June 13 to stockholders of record on May 26. About 156,000 stockholders will share in our earnings.

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Allied Irish Banks Plc

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INTERNATIONAL COMPANIES AND FINANCE

COB to rule on LVMH share dealings this week

By Paul Betts in Paris

THE SPOTLIGHT is expected to focus once again this week on one of France's biggest and most bitter corporate battles...

The COB report could either clear the way for Mr Bernard Arnault, the 40-year-old chairman of LVMH...

The COB has also been examining whether Mr Arnault in partnership with Guinness took control of LVMH...

The inquiry has also centred on a third issue involving Mr Arnault's acquisition at an attractive price of a large amount of LVMH Luxembourg-quoted share warrants...

Mr Arnault, who now controls LVMH with Guinness 46.5 per cent of the fully diluted capital of LVMH...



Arnault (top) and Racamier: battling for control

face at least, always appeared confident that he would be cleared by the COB investigation...

Of the three issues under investigation, it is the acquisition of the share warrants last year which risks posing the biggest problem for Mr Arnault...

But the summary replacement last week of the famous fashion designer Mr Marc Bohan by the Italian designer Mr Gianfranco Ferré at Christian Dior...

stake acquired through these warrants, helping to redistribute the balance between the various shareholding blocks in the company.

Mr Arnault would then see his share of the voting rights drop to around 30 per cent, while the Vuitton clan would see its share increase from a 27 per cent to around 30 per cent.

This could set the stage for an interesting proxy fight at the group's annual meeting on June 9.

Mr Racamier is clearly hoping that unfavourable findings against Mr Arnault by the COB will undermine his younger rival's standing in the financial community and help swing some of the other institutional shareholders and the M&H-Hennessy families to his side.

Mr Racamier recently blocked in the law courts an attempt by Mr Arnault to secure overall management control of the Vuitton holding company...

Mr Arnault would then find himself the undisputed boss of the French group, although his control will ultimately continue to depend on his relationship with Guinness.

For his part, Mr Arnault has sought to secure the confidence of both the French financial establishment and of the M&H-Hennessy clan by appointing first Mr Jean Druap...

Mr Arnault has been seized by his critics and opponents as another example of his brutal business approach.

Jarden Morgan to sell Deak Intl

By Our Financial Staff

DEAK INTERNATIONAL, a North American money and metals broker, has been put up for sale by Jarden Morgan...

Jarden said it recognised it did not have the resources to give the company the financial support which an international organisation of its kind required.

In early 1987 it agreed the takeover of a foreign exchange dealer in Hong Kong and paid £17.2m (\$28.6m) for Johnson Matthey Commodities...

Jarden said that as of last September, Deak International comprised around 35 per cent of shareholders' funds for Jarden and 75 per cent of its debt.

Its original intention to float a minority of Deak on a US or Canadian stock exchange within three years was put into abeyance by the October 1987 crash.

Pre-tax profits surge 31% at Daiwa House

By Robert Thomson in Tokyo

DAIWA HOUSE Industry, Japan's second largest home builder, lifted pre-tax profit 30.3 per cent in the year to March to ¥44.63bn (\$324m) on a 20.6 per cent increase in sales...

The company has been expanding its leisure interests with golf course and hotel projects in resort towns to take advantage of sharply rising domestic tourism...

Mogren aims Astra at the stars

The new chief of Sweden's top drugs group talks to Peter Marsh

When Mr Hakan Mogren became president of Astra, Sweden's top drugs concern, after 10 years in the confectionery business...

But his ideas have proved to be more orthodox, as befits the challenging task which the 44-year-old Mr Mogren has taken on: to shove Astra, Sweden's biggest pharmaceutical company...

Mr Mogren's views strike at what many believe to be a central problem at Astra. The company is acknowledged to have an excellent research and development (R&D) programme and a good profits record.

SIX-YEAR RECORD table with columns for Sales (\$K m) and Pre-tax profit (\$K bn) for years 1983-1988.

Mr Mogren sees his job as very much geared to maximising the revenues which can be gained from Astra's research strengths.

Mr Mogren's views about tight management are in stark contrast to those of his predecessor, Mr Ulf Widengren...

Although Astra is well known to pharmaceutical industry insiders, the company is very much a middleweight in the global drug business...

Under Mr Widengren, Astra

position in terms of sales.

The company's location hardly helps its image. It is based in the unfashionable town of Södertälje, 45 minutes' drive south of Stockholm...

Against Astra's modest sales position, it has a number of promising drugs in its research pipeline which could, some analysts believe, propel it up the pharmaceutical league table over the next decade.

One of these medications is Losoc, a new type of anti-ulcer drug which many believe could challenge the dominance in this field of Zantac...

The favourable view of Astra's research capabilities is clearly shared by Merck of the US, the world's leading pharmaceuticals group with annual sales some five times larger than that of Astra.

Mr Mogren reports directly to him to about 15, vesting day-to-day management control in a four-man executive committee.

Mr Mogren thinks Astra will have to target its drugs far more effectively at specific regions, if necessary coming up with different sales strategies for each area.

Regarding the key markets of the US and Japan - the two biggest markets for pharmaceuticals - Mr Mogren has already demonstrated his keenness to think afresh Astra's sales methods.

In the US, he is reviewing the relationship with



Hakan Mogren: faces a challenging task

Merck. He says he is quite happy for Merck to sell Astra's products in the US in the short term. But further into the 1990s he might wish to build up Astra's own US marketing force...

In Japan Astra has had for some years a joint venture with Fujisawa, a Japanese drugs company. It supplemented this last year through buying, via the joint venture, Hoei, another Japanese pharmaceutical business.

As for R&D, Mr Mogren recognises that this is a key division for Astra. Some 1,600 of the company's 7,000 employees work in this field, all but 100 of them in Sweden.

Despite Astra's good research record, he believes the thrust here could be sharper. "We have to do more to set priorities in research. We cannot be good at everything," he says.

Mr Mogren has already wielded his pruning knife in the research field, cutting out work at Astra on AIDS drugs and on some kinds of cancer therapy.

He says that his background in coming to Astra from a marketing-oriented food company was by no means inappropriate for the job he reckons he has to do at Astra, even though coming in without a detailed knowledge of the drugs business was in some senses a disadvantage.

Mr Mogren says it took the first six months of his time in his new job to learn the rudiments of the industry.

Even so, Mr Mogren knows he can always compensate for his lack of expertise in the drugs arena by falling back on his scientific background. "I've been through the kindergarten of science; at least I know the alphabet of biology."

TOYOTA advertisement featuring the text 'TOYOTA MOTOR FINANCE (NETHERLANDS) B.V.', 'U.S. \$200,000,000', '10 1/4 per cent. Bonds 1991', and a list of financial institutions including Nomura International, Credit Suisse, Merrill Lynch, etc.

Canadian Pacific Limited advertisement featuring the text 'Canadian Pacific Limited had net income for the first three months of 1989 of \$134.1 million or 42 cents per Ordinary share...', 'Consolidated Income (unaudited)' table, and 'Earnings from AMCA International Limited improved as a result of increased activity and strong order backlogs in all of its divisions.'

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, May 15, 1989. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Table with columns: COUNTRY, £ STG, US \$, D-MARK, YEN (x 100), COUNTRY, £ STG, US \$, D-MARK, YEN (x 100). Lists various countries and their exchange rates.

Special Drawing Rights May 12 1989 United Kingdom £0.769969 United States \$1.278188 Germany West D Mark 2.49091 Japan Yen173.321 European Currency Unit Rates May 15 1989 United Kingdom £/A United States \$/A Germany West D Mark /A Japan Yen/A

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (g) Exports; (h) Non commercial rate; (i) Business rate; (j) Buying rate; (k) Luxury goods; (l) Market rate; (m) Official rate; (n) Preferential rate; (o) Convertible rate; (p) Parallel rate; (q) Selling rate; (r) Tourist rate; (s) Some data supplied by Bank of America, Economic Department, London Trading Centre, Equities: 01 634 630/5.

Monday, May 15, 1989.

INTERNATIONAL CAPITAL MARKETS

Index participation debate moves to Illinois courts

By Katherine Campbell

INDEX participations (IPs), the controversial equity derivatives caught up in a legal dispute concerning securities and futures regulations in Washington, finally started trading on two American exchanges at the end of last week.

On Friday the Securities & Exchange Commission, the US federal securities regulator, issued a month-long stay order allowing the Philadelphia Stock Exchange and the American Stock Exchange and the American Stock Exchange to proceed with the launch of their similar IPs.

The Chicago Mercantile Exchange and the Chicago Board of Trade, which trade competing stock index futures products, are seeking a further stay from the seventh circuit court of appeal in Illinois. The court has requested the SEC to make its case against the stay by noon today.

The argument revolves around whether IPs should be deemed as securities or futures, and is complicated by the lack of any concrete legal definition of what a future is in the Commodity Futures Trading Commission's enabling act.

If IPs are held to be securities they fall under the jurisdiction of the SEC; if they are futures, as the Chicago exchanges and the CFTC itself say, they are within the ambit of the CFTC.

Index participations are essentially investment vehicles that reflect the current value of baskets of stock or stock indices, available in small enough parcels to be attractive to non-professionals. They can be sold for cash or alternatively, as in the case of the Amex, for physical stock.

Mr Nicholas Giordano, president of the Philadelphia Stock Exchange said: "IPs are designed to bring the individual investor back to the stock market."

In many senses IPs resemble stocks as they can be held indefinitely and pay quarterly dividends. But they have some characteristics of stock index futures too.

Ms Mary Schapiro, an SEC commissioner, admits the distinction is a fine one. "I do believe they are securities," she said, "but reasonable people can argue the case the other way."

All new products to be introduced on US exchanges have to go through an extensive vetting process in Washington before they are approved. The SEC heard arguments from a host of industry participants before issuing an order approving the contracts in mid-April.

Unusually, the commission quickly granted a stay giving the Chicago exchanges and others a further chance to put their arguments against the order. Now that the SEC has lifted the stay it is up to the CME to try its luck in the Court of Appeal.

The regulatory turf between the SEC and the CFTC has always been a disputed patch. In 1982 the so-called Stans Johnson report was drawn up, an attempt by the then heads of the SEC and Philip Johnson of the CFTC, to clarify the demarcation lines between the two agencies.

But the derivatives industry has moved on since the last seven years, and some would argue the accord needs rethinking.

Trading on both exchanges was off to a mixed start on Friday. On the Amex, 42,595 participations of their equity IPs based on the S&P 500 were traded, or an equivalent underlying value of about \$133.6m.

In Philadelphia, some 54,000 cash IPs or an equivalent value of \$1.7m, also based on the S&P 500 index, changed hands. The blue chip index trade amounted to just \$11.95m.

Belgian cross-border business. The Dutch bank said: "We believe there are good opportunities for us in Belgium and we are looking to expand our services in the Belgian market."

Antwerp. Its name will be changed to NMB Bank (Belgium) after the transaction. The acquisition gives NMB direct entrance into the Belgian market. NMB said it was keen to utilize the Bank of Antwerp office for trade financing and to beef up its Dutch/

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 15

Table with columns: COUNTRY, Bond Name, Yield, Change, etc. Lists various international bonds and their yields.

TRADE INDEMNITY THE CREDIT RISK MANAGERS



01-739 4311 EXPORT CREDIT INSURANCE

Advertisement for METSA-SERLA US\$50,000,000 Revolving Credit Facility. Includes details about the facility, participating banks (Union Bank of Finland Ltd, Bergen Bank A/S, etc.), and agent bank (Union Bank of Finland Ltd).

Advertisement for BENETTON GROUP SpA. Includes the company logo, name, and a notice regarding the payment of a dividend to shareholders.

Advertisement for Morgan Guaranty Trust Company of New York. Promotes Japanese Yen 15,000,000 Floating Rate Deposit Notes Due 1991.

Advertisement for The Bank of Scotland. Promotes U.S. \$250,000,000 Undated Floating Rate Primary Capital Notes.

Advertisement for Midland Bank plc. Promotes £250,000,000 Subordinated Floating Rate Notes 2001.

Advertisement for CITICORP. Promotes US\$250,000,000 Floating Rate Subordinated Capital Notes due August 1996.

Various small notices and advertisements, including one for Straight Bonds and another for the Bank of America.

INTERNATIONAL CAPITAL MARKETS

Treasuries retreat slightly ahead of inflation data

By Janet Bush in New York and Katharine Campbell in London

US TREASURY bonds closed marginally lower yesterday, underpinned by a surge in oil prices but cautious in the wake of its 2% point rise last Friday...

GOVERNMENT BONDS

day's April consumer price release. In late trading, the short end of the yield curve was slightly weaker, with some issues a point lower with the long end around a point easier.

Reserve was managing a soft landing for the economy. Yesterday, the curve inverted slightly once again, signalling a more cautious attitude...

Some retracement of gains in the short end was to be expected given that short bonds had clearly started signalling a cooling move by the Fed.

There is still doubt that a move could come so soon. Although industrial production and capacity utilisation figures released yesterday provided more evidence of a slowing economy, the deceleration is by no means dramatic.

0.4 per cent in April and capacity utilisation rose 0.2 per cent to 83.9 per cent.

There is a substantial body of opinion that believes that the Fed will maintain a no-change policy given that inflation remains well above 5 per cent and economic growth above an annual 2.5 per cent.

Trading is likely to remain cautious while traders look for any policy hints from the FOMC and settle into the wait for Thursday's consumer price figures for April, which are expected to show a rise of 0.5 per cent to 0.6 per cent.

Bergesen to raise \$150m in five-year facility

By Norma Cohen

BERGEGSEN, THE Norwegian shipping company, is raising \$150m through a five-year revolving credit facility arranged by Manufacturers Hanover Trust.

This is the company's first unsecured long-term financing in the Euro markets. Terms were not disclosed.

Notes will be issued on either a fixed- or floating-rate basis or in zero-coupon form with a multi-currency option.

New-issue activity on hold as dollar surge continues

By Norma Cohen

EUROBOND market activity hit a lull yesterday with European centres closed for the Whitman holiday.

The strength of the US currency, however, has not been translated into heavy demand for new Eurobonds, although dealers had reported brisk secondary market activity during a stunning rally last Friday.

Yesterday, a bout of profit-taking pared some of the rally's gains and the Eurobond market kept pace with the tone in the Treasury market.

INTERNATIONAL BONDS

Among the new issues launched on Friday was a \$300m mortgage-backed floating-rate bond for MABS Funding Number 2, a special-purpose vehicle created by J.P. Morgan.

Unlike most of the UK mortgage-backed securities, which have an average life of seven years, the latest notes have an average life of two years.

over Labor of 15 basis points against a 20 basis point spread offered on the last issue of mortgage-backed notes.

There is a "step-up" provision to a 50 basis point spread after four years if the notes have not fully matured.

Dealers said that Barclays Bank was expected this week to make its long-awaited offer of £175m of mortgage-backed notes supported by home loans removed from its own balance sheet.

Salomon to launch Chile fund

By Barbara Durr in Santiago

SALOMON Brothers, the New York investment bank, is to launch a \$60m investment fund for Chile, according to Chilean Finance Ministry officials in Santiago.

The Chile Fund will be listed on the New York Stock Exchange. It is designed to attract fresh capital rather than use converted debt paper for investment in the Chilean stock market.

Last year, Midland Bank, in association with several other international banks and the International Finance Corporation, the private wing of the World Bank, began an investment fund in Chile based on converted debt obligations.

Inverchillie, the Chilean investment company handling this fund, said that in its first nine months it had gathered a portfolio worth 10 to 15 per cent more than the face value of the converted debt.

stood to be working on a second, similar fund. Genesis Investment Management, the British investment company, is also looking at the possibility of an investment fund in Chile based on American International Group, the insurance concern.

The Chilean stock market has risen more than 40 per cent this year largely as a result of expected participation by Chile's private pension funds.

BENCHMARK GOVERNMENT BONDS

Table with columns: Coupon, Bid, Price, Change, Yield, Week Ago, Month Ago. Rows include UK Gilts, US Treasury, Japan, Germany, France, Canada, Netherlands, Australia.

Nordic auditing firm links with KPMG

By Richard Waters

THE auditors of the overseas operations of Volvo and Alfa-Laval, along with a string of other prominent Swedish companies, are about to change following the latest in a spate of shifting alliances in the Swedish accountancy world.

week to join KPMG, the world's largest accountancy group. Swedish companies must be audited by two accountancy firms.

KPMG offices will take on the overseas audit work of Bohlin's clients from Deloitte Haskins & Sells, another of the large accountancy groups.

Deloitte network as well as joining KPMG. However, the Deloitte executive board, meeting later this week, is expected to expel the renegade Swedish firm.

KPMG's gain follows the loss earlier this year of Revokio, its former member firm in Sweden, which merged with Olafings, itself a member of the international Coopers & Lybrand group.

Mito Europe in sea move

By Our Euromarkets Staff

MITO EUROPE, a subsidiary of the Japanese securities house, yesterday began market making in 30 Japanese stocks on the London Stock Exchange's automatic quotation system.

This brings to 22 the number of Japanese market makers in Japanese stocks, and to 52 the number of market makers on the 700-stock system.

Australian approval sought for Instinet

Reuters Australia is seeking approval to introduce the Instinet equities screen trading service in Australia, according to application documents released by Reuters, the international business information network, and the National Companies and Securities Commission, the agency reports.

The NCSG will analyse responses and frame a recommendation to the joint federal-state ministerial council which oversees company and securities law.

Reuters has applied under the securities industry code for Instinet Australia (IAL) to act as an exempt stock market. It proposes that the existing Instinet service be allowed to operate immediately in Australia for screen trading of US and UK equities and that IAL then join the Australian Stock Exchange (ASX) before offering brokerage of ASE stocks.

Mr Henry Bosch, NCSG chairman, said: "Instinet and services like it have the potential to change the structure of the Australian securities market." Therefore the NCSG felt that securities industry comments should be sought before it framed a recommendation.

However, Reuters said in response that these conditions were not appropriate to Instinet's role as a broker.

LONDON MARKET STATISTICS

Table with columns: Rises, Falls, Same. Rows include British Funds, Industrial, Financial and Properties, etc.

LONDON RECENT ISSUES

Table with columns: Issue, Amount, Latest, 1989, 1990, etc. Lists various financial issues.

FIXED INTEREST STOCKS

Table with columns: Issue, Amount, Latest, 1989, 1990, etc. Lists fixed interest stocks.

RIGHTS OFFERS

Table with columns: Issue, Amount, Latest, 1989, 1990, etc. Lists rights offers.

TRADITIONAL OPTIONS

Table with columns: Issue, Amount, Latest, 1989, 1990, etc. Lists traditional options.

LONDON TRADED OPTIONS

Large table with columns: Calls, Puts, etc. Lists London traded options.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table with columns: Index No., Day's Change, etc. Lists equity groups and sub-sections.

FIXED INTEREST

Table with columns: Price Indexes, etc. Lists fixed interest data.

INTERNATIONAL COURIER & EXPRESS SERVICES

The Financial Times proposes to publish this survey on:

JULY 19 1989

For a full editorial synopsis and advertisement details, please contact:

NEVILLE WOODCOCK on 01-873 3365

or write to him at:

Number One Southwark Bridge London SE1 9HL

FINANCIAL TIMES EUROPE & BUSINESS NEWSPAPER

SPANISH BANKING Finance & Investment

The Financial Times proposes to publish this survey on:

22nd June 1989

For a full editorial synopsis and advertisement details, please contact:

Mr Richard Oliver on Madrid 577 09 09 or write him at Financial Times Serrano 58, 28001 Madrid Fax number Madrid 564 18 92

Alternatively Sandra Lynch Number One Southwark Bridge London SE1 9HL Tel: 01-873 4190

FINANCIAL TIMES EUROPE & BUSINESS NEWSPAPER

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First Dealings: May 15. Last Dealings: May 26. Last Declaration: Aug 10. For settlement: Aug 21. For rates indications see end of London Share Service.

FT-SE 100 SHARE INDEX: 2149.31 (+1.2) 2136.41 (+2.1) 2146.31 (+2.5) 2135.71 (+1.4) 2114.61 (+1.7) 2117.81 (+1.1) 2125.11 (+1.4) 2119.61 (+1.7) 1764.6

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CONTRACTS

£30m orders for Wiltshire Group

JOHN E. WILTSHIRE GROUP has won contracts worth more than £30m over the last month. The largest, a £10m design and build contract, was won by Wiltshire Projects Group and involves the construction of four adjacent high specification office buildings at Herbal Hill, London ECL, for Priest Mariani Developments. Also design and build, is an £25,000 warehouse superstructure in Enfield, London, for Barclays Nominees (KW).

Leisure facilities for Milton Keynes project

SDC BUILDERS, Bedford, has been awarded contracts worth over £17.7m, the biggest of which is to design and build a £7.7m leisure plaza in the centre of Milton Keynes.

This encompasses an international ice arena, 36-lane bowling centre and family facilities linked by a central plaza and ornamental lake to two stores and a garden centre to be leased to Sainsbury's Homebase and Argos.

Seven other contracts include a nursing home at Beetham, Cambridge, for SP (£2.9m), a factory at Cambridge

for Plant Breeding International (£1.6m) and an industrial unit at Biggleswade for Bedfordshire Salvage Company (£900,000).

The remainder, all design and build, are for adding a swimming pool to Beds District Council's sports centre at Filtwick (£1.6m), a three-storey office building for accountants, MacIntyre Hudson, at Milton Keynes (£1.6m), offices for computer company, Barron McCann, at Letchworth (£1.1m) and the extension and refurbishment of Woodlands Manor Hotel, at Clapham, Beds, (£500,000).

Manchester headquarters

COSTAIN CONSTRUCTION, a subsidiary of Costain Group, has been awarded a £7.2m contract by Siemens for the construction of Siemens new energy and automation headquarters in Manchester.

The contract comprises the construction of a multi-storey office building surrounding an enclosed courtyard which is to have extensive landscaping.

The main entrance to the building and a training centre, occupying a prominent corner of the site, will consist of a circular element four storeys high with a machinery room above. The remainder of the building will be five storeys high and contain open plan

office accommodation and facilities for the main services.

Construction will include flight augured concrete pile foundations, pile caps and an in situ reinforced concrete ground floor slab. The circular element will consist of reinforced concrete columns, beams, floor slabs, roof deck and perimeter walls. Internal partitions will be 100mm concrete blockwork. The machinery room will have a steel frame with concrete block walls clad in aluminium. Precast concrete staircases will also be included.

The contract commenced in the last week of April and is due for completion in the middle of June 1990.

FT LAW REPORTS

Bank can freeze UK assets for French proceedings

X Y AND Y ESTABLISHMENT Queen's Bench Division: Mr Anthony Diamond QC, sitting as a deputy High Court judge: April 10 1989

WHEREAS A civil or commercial action is tried in a country which is party to the European civil jurisdiction Convention, the English court has power to give the plaintiff leave to serve *Mareva* proceedings abroad on a defendant domiciled in a non-Convention country, and may freeze his UK assets pending judgment in the foreign court if there is a real risk that he will dispose of them to avoid satisfaction.

Mr Anthony Diamond QC, sitting as a deputy High Court judge, so held when dismissing a chambers summons by which the defendant Y, a Saudi Arabian carrying on business as an establishment, sought (i) to set aside leave given to X, the plaintiff bank, to serve interim proceedings on Y in Saudi Arabia; and (ii) to discharge a *Mareva* injunction obtained *ex parte* by the bank.

THE LORDSHIP said that on May 25 1986 the plaintiff, a French bank, agreed to provide the defendant, a Saudi Arabian businessman, with a letter of credit and acceptance facility up to \$5m, and to lend him \$50m.

The defendant guaranteed all amounts due. Under the agreement and the guarantee he submitted to the jurisdiction of the courts of any place where his assets might be found, and payments were to be made "without any deduction or withholding whatsoever."

In October 1987 the defendant defaulted on the letters of credit. On March 16 1988 the bank wrote bringing the loan agreements to an end and claiming sums due.

In early 1984 the bank's ultimate holding company, "A", had decided to increase its share capital and had asked the bank to help in placing shares. The defendant had subscribed for 60,000 shares at \$100 per share.

He became disenchanted with the investment. It was asserted in evidence that in buying the shareholding the defendant relied on representations made by an employee of the bank in France five criminal complaints were made by subscribers to the 1984 placement, including the defendant. It was said that the bank employee was to be charged with fraud and abuse of confidence.

While criminal proceedings were in being, the defendant was precluded from bringing civil proceedings in France.

No defence had ever been raised on the defendant's default on the letters of credit. It was clear that he had no right to withhold any of the sums due to the bank. He had expressly agreed to pay "without any deduction or withholding whatsoever."

There was no doubt that his failure to pay was due to his desire to put pressure on the bank to settle the dispute relating to his shares in A. That was a clear breach of the contracts, which specifically excluded any right of set-off.

In April 1988 the bank commenced proceedings against the defendant in Paris. It had previously obtained a *saissie conservatoire* of his A shares, held at its Paris branch. They might well not be worth more than \$3.8m. There has been no judgment so far, and he had put in no defence.

On December 13 the bank applied *ex parte* to the English court for a *Mareva* injunction restraining the defendant, until trial of the Paris proceedings, from dealing with or removing his assets out of the jurisdiction.

Mr Justice McCullough made an order to that effect, and also gave the bank leave to serve an originating summons on the defendant in Saudi Arabia. The bank issued the summons, asking for similar relief to that granted *ex parte*.

As a result the bank succeeded in freezing the defendant's London assets, amounting to about \$1.5m.

On the present summons the defendant sought orders that (a) the originating summons, service, and all subsequent proceedings be set aside, on the ground that the court had no power to give leave to serve out of the jurisdiction; and (b) that the *Mareva* injunction be discharged.

Article 24 of the European Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters 1968 provided that application might be made to the courts of a contracting state "for such provisional, including protective measures" as might be available under its laws.

It was said that if the courts of another contracting state have jurisdiction as to the substance of the matter "The Civil Jurisdiction and Judgments Act 1982 gave effect to the Convention in the UK.

Section 25 of the 1982 Act provided that the High Court had power to grant interim relief where proceedings had been commenced in a contracting state other than the UK.

Mr Silber for the defendant submitted that while section 25 gave the court power to grant interim relief in relation to French proceedings, it could not exercise that power unless either (i) process could be served within the UK, or (ii) statutory authority could be found in Order 11 of the Rules of the Supreme Court, allowing service out of the jurisdiction.

Neither article 24 nor section 25 was expressed to be so limited. For section 25 to apply there were two conditions. First, proceedings must have been or be about to be commenced in a contracting state other than the UK (25(1)(a)).

Second, the subject matter of the proceedings must be within the scope of the 1968 Convention (25(1)(b)).

Both conditions were satisfied. France was a Convention state, and the proceedings related to "civil and commercial" matters.

Section 25 itself did not authorise service out of the jurisdiction. That was intended to be dealt with in complementary legislation - namely Order 11.

The proper action of Order 11 rule 11(b) was that the court could grant leave to serve out of the jurisdiction (a) when the injunction sought in the action was part of the substantive relief to which the cause of action entitled him (as held in *Siskina*); and (b) where the claim was for ancillary relief within section 25.

Mr Justice McCullough therefore had power to grant leave under rule 11(b) to issue the originating summons and to serve it in Saudi Arabia.

There were very strong reasons why the court should exercise its discretion in favour of granting interim relief. They included the agreement that the defendant might be sued "in any place where his assets may be found"; the fact that he had unconditionally submitted to the jurisdiction of the French court; and the fact that any French judgment would not be enforceable in Saudi Arabia.

There was abundant evidence that he was taking every step available to avoid paying an undisputed debt of \$5m to the bank, so as to put pressure on it to settle the dispute relating to his shares in A. Refusal of a *Mareva* injunction would involve a real risk that a French judgment would remain unsatisfied save to the extent that it was secured by the *saissie conservatoire*.

It was just and convenient that the defendant should be restrained from removing his assets out of the jurisdiction.

Judgment for the bank. For the bank: Nicholas Merriman QC and Andrew Sutcliffe (McKenna & Co)

For the defendant: Stephen Silber QC and Thomas Weitzman (Holman Fenwick & Willan)

Rachel Davies Barrister

FINANCIAL TIMES GUIDE TO INVESTMENT TRUSTS by Anthea Massey. Investment trusts are one of the best kept secrets of the investment world. This guide has been written to dispel the mystique and provide the investor with clear and concise information on how to move into and maximise the advantages of this long-established sector of the investment industry.

TEES/SIDE THE UK'S BIGGEST NEW URBAN DEVELOPMENT PROJECT. Hartlepool - provision of residential, leisure and business amenities and maritime-related enterprise at the new marina complex. Teesside Park - specialist retail outlets at the old Stockton racecourse, now being developed together with the UK's largest leisure centre.

COMMODITIES AND AGRICULTURE

Dollar undermines precious metals

By Kenneth Gooding, Mining Correspondent

PRECIOUS METALS prices were sent tumbling yesterday by the soaring dollar, which discouraged buyers of gold, silver and platinum.

level reached last year. By bursting through this chart support point, gold triggered further selling.

the gold price was unlikely because it was being underpinned by the unrest following the Panamanian elections and the subsequent involvement of the US in that country.

down 10 cents from Friday and a 26-month low. Meanwhile, the platinum price slumped by \$15.80 an ounce to \$519.90 by the close.

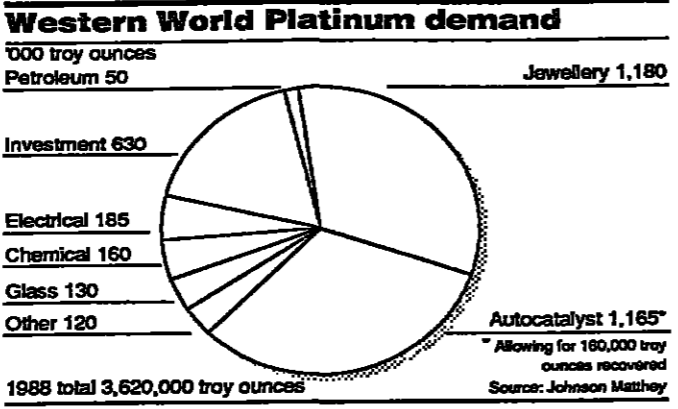
Japanese still hungry for platinum

By Kenneth Gooding

JAPAN'S VORACIOUS appetite for platinum sent demand for the precious metal spiralling to another record last year, according to Johnson Matthey, the world's largest platinum marketing company.

Japanese imports of platinum in 1988 reached 3,170 troy ounces, 30 per cent more than the previous year.

This demand in future. The review says it is unlikely that Japan will repeat last year's extraordinary level of imports but looks set to remain the biggest market by far.



Johnson Matthey says that in 1988 platinum demand rose by 10 per cent to 3,660 ounces, the second year in succession that the 3m ounce level was exceeded.

Supplies of primary platinum grew by only 3 per cent to 3.2m, and the deficit of supply more than doubled to 460,000 ounces.

Rape seed growers vote to pay research levy

By Bridget Bloom, Agriculture Correspondent

BRITAIN'S OIL seed rape growers have voted to pay an annual levy to fund their own applied research following the Government's decision last year to stop funding such so-called "near market" research.

methods of crop protection, among other research projects. Government plans to cut more than £20m from its £160m agricultural research and development budget were announced last year amid widespread controversy.

Coarse grain crop seen rising by 100m tonnes

By David Blackwell

WORLD PRODUCTION of coarse grains is set to soar by more than 100m tonnes next year, according to the latest International Wheat Council report.

The IWC has revised downwards its forecast for next year's wheat crop to 535.3m tonnes from last month's 537.7m tonnes.

Time runs short for tin case settlement

By Raymond Hughes and Kenneth Gooding

LAST-DITCH attempts were being made yesterday to reach an out-of-court settlement between the tin case traders and banks caught up in the 1985 collapse of the International Tin Council's buffer stock operations with debts of \$906m.

Never mind the quality, look at the view

Farmland used to be valued on its productive potential, but now other factors take priority

LAND AGENTS have never been so busy and they are loving it. One told me the other day that twice as many farms as usual had come onto the market so far this year and that he personally was currently preparing the particulars for a dozen major estates.

FARMER'S VIEWPOINT



By David Richardson

The answer used to lie in the soil (with apologies to the late Kenneth Williams). The value of a farm was governed by the quality of the land and its ability to grow good crops.

year were taking advantage of roll-over relief and that represented 42 per cent of the acreage which changed hands in the eastern counties roll-over money paid for 80 per cent of the acreage sold.

Those with attractive houses, good shoots and within an hour or so of London will be seeking to give up the unequal struggle of trying to make money from farming and are putting their holdings on the market. Last week 18 pages of the Farmers Weekly were crammed full of details of farms for sale up and down the country.

But the immediate pressure to buy has now receded. Meanwhile, more and more farmers are seeking to give up the unequal struggle of trying to make money from farming and are putting their holdings on the market.

LONDON MARKETS

COFFEE prices resumed their recent uptrend yesterday after Friday's setback. The strength of nearby May again dragged the other months higher.

Table with columns: Commodity, Close, Previous, High/Low. Includes COCOA, COPPER, RUBBER, and various oils.

Table with columns: Commodity, Close, Previous, High/Low. Includes LONDON METAL EXCHANGE, SOYABEAN MEAL, and various metals.

Table with columns: Commodity, Close, Previous, High/Low. Includes LONDON BULLION MARKET, RUBBER, and various metals.

Table with columns: Commodity, Close, Previous, High/Low. Includes CRUDE OIL, HEATING OIL, and various oils.

Table with columns: Commodity, Close, Previous, High/Low. Includes SOYABEAN MEAL, RUBBER, and various metals.

Table with columns: Commodity, Close, Previous, High/Low. Includes SOYABEAN MEAL, RUBBER, and various metals.

Table with columns: Commodity, Close, Previous, High/Low. Includes COPPER, RUBBER, and various metals.

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TEA There were 16,556 packages on offer including 5,000 offshore, reports the Tea Brokers Association. A strong demand prevailed.

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LONDON STOCK EXCHANGE

Equities extend gains in slow trade

LONDON equity specialists sounded somewhat unconvinced yesterday by another firm performance from the UK market which saw leading indices again establish new post-Crash highs...

in consumer spending. The pound's relatively steady performance against the German mark restrained anxiety over domestic interest rates. Equities opened sharply higher and the Footsie was showing an 18 point gain as London waited for Wall Street to extend its advance...

has been "marginally disappointing against Wall Street," according to Mr Ian Stephenson at Salomon International. "The institutions are baulking at buying the market above FT-SE 2,100...

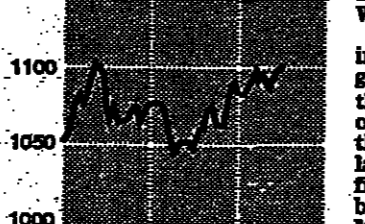
Wellcome out of favour

A weak spot in a firm market was provided by Wellcome, the pharmaceutical group, as several bearish factors prompted selling of share options which was quickly reflected in the underlying shares...

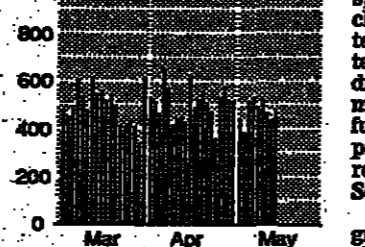
Accounting Bulletin

Table with 3 columns: Year, May, Jun. Rows include Accounting Bulletin, First Quarter, and Last Quarter.

FT-A All-Share Index



Equity Shares Traded



noted one marketmaker

The biggest action was in Sedgwick, where 2.4m were traded at 467p, up 7 1/2 at 33p after it was revealed that two Swiss banks had bought 6m shares between them...

Trading Volume in Major Stocks

Table listing trading volume for various stocks including ASA, Anglo, and others.

FINANCIAL TIMES STOCK INDICES

Table showing stock indices for May 12, 11, 10, 9, and Year Ago, including Government Secs, Fixed Interest, Ordinary, and Gold Mines.

S.E. ACTIVITY

Table showing S.E. Activity indices for May 12, 11, 10, 9, and Year Ago, including Gilt Edged Bargains, Equity Bargains, and 5-Day average.

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (BT) BRITISH FUNDS BY AMERICAN (22) CANADIAN (12) BARRIS (2) CASH ALBA, Sec. Pacific, Victoria, Wellington (3)...

Colourful Kingfisher

Demand for Kingfisher showed no signs of slackening as marketmakers in the stock returned to their desks mindful of weekend press reports pointing to possible foreign stakeholding...

Insurance brokers hurred into life

Insurance brokers hurred into life with buying interest stimulated by the latest upsurge in the dollar and vague suggestions of redundancies at the big broking firms.

Crystalite lost to 13p

Crystalite lost 6 to 13p with the "quite respectable" figures, according to dealers, offset by the cautious accompanying statement.

Security Industry Qualifications

Large advertisement for Security Industry Qualifications, congratulating 1988 diploma achievers and listing award winners like Mr C.R.T. Stanley and Mr R.D. Andrew.

Senior posts at Saatchi and Saatchi

Mr Terry Bannister and Mr Roy Warman have been appointed chief operating officers of SAATCHI & SAATCHI communications group...

APPOINTMENTS

Mr Angus Clark has been appointed managing director of GR-STERN, the refractories division of Heyworth. He was managing director of P.C. Henderson.

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Main table containing unit trust information with columns for Name, Price, Offer, Yield, and other financial metrics. Includes sections for 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

OTHER UK UNIT TRUSTS

INSURANCES

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Main table containing unit trust information with columns for Name, Price, Offer Price, Yield, and other financial metrics. Includes sub-sections for 'MANAGEMENT SERVICES', 'OFFSHORE AND OVERSEAS', 'GUERNSEY (ISB RECOGNISED)', 'LUXEMBOURG (ISB RECOGNISED)', and 'SWITZERLAND (ISB RECOGNISED)'.

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FT UNIT TRUST INFORMATION SERVICE

Table of FT Unit Trust Information Service listing various unit trusts, their managers, and performance metrics.

LONDON SHARE SERVICE

Table of London Share Service listing various funds, including British Funds, Commonwealth & African Loans, Foreign Bonds & Rails, and Money Market Bank Accounts.

LONDON SHARE SERVICE

Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

AMERICANS - Contd

Table listing American stocks including Dana Corp, Amgen, and others with columns for stock name, price, and change.

BUILDING, TIMBER, ROADS - Contd

Table listing building, timber, and roads stocks including Amstar, Borden, and others.

DRAPERY AND STORES - Contd

Table listing drapery and stores stocks including Amstar, Borden, and others.

ENGINEERING

Table listing engineering stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.) - Contd

Table listing industrial stocks including Amstar, Borden, and others.

CANADIANS

Table listing Canadian stocks including Amstar, Borden, and others.

ELECTRICALS

Table listing electrical stocks including Amstar, Borden, and others.

FOOD, GROCERIES, ETC

Table listing food, groceries, etc. stocks including Amstar, Borden, and others.

HOTELS AND CATERERS

Table listing hotels and caterers stocks including Amstar, Borden, and others.

INSURANCES

Table listing insurance stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

BANKS, HP & LEASING

Table listing bank, HP, and leasing stocks including Amstar, Borden, and others.

CHEMICALS, PLASTICS

Table listing chemical and plastic stocks including Amstar, Borden, and others.

DRAPERY AND STORES

Table listing drapery and stores stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

Hire Purchase, Leasing, etc.

Table listing hire purchase and leasing stocks including Amstar, Borden, and others.

BEERS, WINES & SPIRITS

Table listing beer, wine, and spirit stocks including Amstar, Borden, and others.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

INDUSTRIALS (Misc.)

Table listing industrial stocks including Amstar, Borden, and others.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar's surge continues

THE DOLLAR continued its upward surge yesterday, in trading generally confined to London, as the main North American financial centres...

and Chrysler's early May sales of cars and commercial vehicles. As the market began to look towards a possible easing of the Federal Reserve's monetary stance...

DML9400 during the morning in London, advancing to a peak of DML9495, touching its high before closing at DML9420, against DML9190 at the previous close.

Table with columns for currency, rate, and change. Includes DML9450, DML9400, etc.

IN NEW YORK

A rise of 0.4 per cent in April US industrial production was larger than market forecasts of 0.2 to 0.3 per cent...

Table with columns for month, value, and change. Includes 1989, 1988, 1987, etc.

STERLING INDEX

Table with columns for date, index value, and change. Includes 8.30, 9.00, 9.30, etc.

CURRENCY RATES

Table with columns for currency, rate, and change. Includes Sterling, Swiss Franc, etc.

CURRENCY MOVEMENTS

Table with columns for currency, movement, and percentage change. Includes Sterling, Swiss Franc, etc.

OTHER CURRENCIES

Table with columns for currency, rate, and change. Includes Argentina, Australia, etc.

MONEY MARKETS

London rates steady

CONFLICTING PRESSURES dominated the world interest rate scene on Friday. Friday's lower than expected rise in April US producer prices increased speculation that the Federal Reserve will ease its monetary policy...

and fell in the note circulation of \$310m. In Tokyo the strength of the dollar against the yen increased expectations of a rise in the Bank of Japan's discount rate...

The Bank of Japan may be waiting for more information on inflation. Japanese wholesale prices for April will be published this Friday and the April consumer price index on the following Friday.

Table with columns for currency, rate, and change. Includes UK clearing bank base lending rate, etc.

considerations, including inflation, mean there is little prospect of lower UK bank base rates. Three-month sterling interbank closed unchanged at 12 1/2-12 3/4 per cent.

A decision on long term prime rates will be made on May 25. Pressure for higher rates has followed a rise in yields on bank debentures on the secondary market.

FINANCIAL FUTURES

Short sterling futures weak

JUNE SHORT sterling futures fell to 87.02 from 87.07 in quiet trading on the LIFFE market yesterday. A long walk to work or sitting in a long traffic jam, as London bus crews and underground train workers held a one-day strike, reminded traders of the present mood of industrial unrest in some sectors of the UK economy.

This gave the market a depressed tone during a week when attention will turn to economic performance and particularly any sign of rising earnings. UK employment data will be published on Thursday and, according to a survey by MMS International, it is generally expected that the rise in average earnings in March will show unchanged growth of 9.25 per cent.

Other market sensitive figures on money supply, bank lending and the retail price index will be announced on Friday. A rise of 1.4 per cent is expected in the April RPI, taking the year-on-year inflation rate down to 7.7 per cent from 7.9 per cent.

Table with columns for contract, price, and change. Includes Sterling, etc.

Table with columns for contract, price, and change. Includes US Treasury, etc.

Table with columns for contract, price, and change. Includes Sterling, etc.

EUROPEAN CURRENCY UNIT RATES

Table with columns for country, unit, and rate. Includes Belgium, France, etc.

LONDON CLIFFE

Table with columns for contract, price, and change. Includes 20-Year US, etc.

PHILADELPHIA SE 1/8 OPTIMS

Table with columns for contract, price, and change. Includes Sterling, etc.

CHICAGO

Table with columns for contract, price, and change. Includes US Treasury, etc.

POUND SPOT - FORWARD AGAINST THE POUND

Table with columns for contract, price, and change. Includes US, Canada, etc.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Table with columns for contract, price, and change. Includes UK, etc.

EURO-CURRENCY INTEREST RATES

Table with columns for currency, rate, and change. Includes Sterling, etc.

EXCHANGE CROSS RATES

Table with columns for currency, rate, and change. Includes DM, Yen, etc.

FT LONDON INTERBANK FIXING

Table with columns for contract, price, and change. Includes 11.00 a.m., etc.

MONEY RATES

Table with columns for contract, price, and change. Includes Treasury Bills, etc.

LONDON MONEY RATES

Table with columns for contract, price, and change. Includes Interbank Offer, etc.

MAGAZINE PUBLISHING

The Financial Times proposes to publish this survey on: 23rd June 1989. For a full editorial synopsis and advertisement details, please contact: Neville Woodcock on 01-873 3365.

MIKUNI'S CREDIT RATINGS on about 4,000 bond issues and about 1,000 short-term notes. Cost: US\$ 3,600 per year.

FIDELITY BALANCED PORTFOLIO Société d'Investissement à Capital Variable. NOTICE OF ANNUAL GENERAL MEETING. Notice is hereby given that the ANNUAL GENERAL MEETING of the Shareholders of FIDELITY BALANCED PORTFOLIO...

COMMERCIAL BANK OF THE NEAR EAST PLC. Holders of Share Warrants to bearer are informed that they will receive payment of the dividend for 1988 of 50p per share on and after 15th May 1989...

JOTTER PAD. A collection of various notes and advertisements.

CROSSWORD No.6935 Set by TANTALUS. A crossword puzzle grid.

MAGAZINE PUBLISHING. The Financial Times proposes to publish this survey on: 23rd June 1989. For a full editorial synopsis and advertisement details, please contact: Neville Woodcock on 01-873 3365.

WORLD STOCK MARKETS

Table of world stock markets including Australia, Belgium/Luxembourg, Denmark, France, Germany, Italy, Japan, Korea, Norway, Spain, Sweden, Switzerland, and Taiwan. Columns include stock names, prices, and changes.

CANADA

Table of Canadian stock markets including Toronto and Montreal. Columns include stock names, prices, and changes.

INDICES

Table of various stock indices including Dow Jones, Nikkei, and others. Columns include index names, values, and changes.

Table of Japanese stock markets including various companies and indices. Columns include stock names, prices, and changes.

Table of New York active stocks including company names, prices, and changes.

Table of Tokyo most active stocks including company names, prices, and changes.

Advertisement for 'Your FT hand delivered in Germany' featuring a list of German cities and contact information for Financial Times.

Advertisement for 'Travelling by air on business?' featuring Brussels Airlines and contact information.

Advertisement for '12 ISSUES FREE' offering a free subscription to Financial Times.

3pm prices May 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table of stock prices with columns for High, Low, Stock, Div, Yld, 100 High, Low, and Change. Includes various stock tickers and their corresponding prices.



NYSE COMPOSITE PRICES

Table of NYSE Composite Prices with columns for Stock, Div, High, Low, Last, and Change. Includes sub-sections for 12 Month High/Low and 52 Week High/Low.

OVER-THE-COUNTER

Nasdaq national market, 3pm prices May 15

Table of Over-the-Counter prices with columns for Stock, Div, High, Low, Last, and Change. Includes sub-sections for 12 Month High/Low and 52 Week High/Low.

Notes and footnotes regarding the data, including a disclaimer: 'Sales figures are notional. Yearly highs and lows reflect the previous 52 weeks...'.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices with columns for Stock, Div, High, Low, Last, and Change. Includes sub-sections for 12 Month High/Low and 52 Week High/Low.

Travelling by air on business with Iberia? Enjoy reading your complimentary copy of the Financial Times when you are travelling on scheduled flights from Madrid and Barcelona.

Advertisement for FT hand delivery service in Iceland, featuring text about business briefings and subscription information.

Advertisement for FT hand delivered in Belgium, featuring text about business briefings and subscription information.

Advertisement for F.T. hand delivered in Vienna, featuring text about business briefings and subscription information.

FINANCIAL TIMES SURVEY



Austria's coalition Government has weathered the damaging Waldheim affair, presided over

a period of economic expansion and overhauled the unwieldy state industrial sector. Attention is now focused on Vienna's bid to join the EC, writes Robert Mauthner

Business as usual

IT IS very much "business as usual" in Austria after the political and economic hiccup of last year, when the country used the 50th anniversary of its 1938 Anschluss with Germany to indulge in some painful analysis of its recent past.

The Austrian economy, widely considered at the beginning of 1989 to be on the verge of stagnation, has undergone yet another "miracle" by growing by more than 4 per cent without a dangerous increase in inflation. And President Kurt Waldheim, again against all expectations, is still Head of State, after weathering a storm of international allegations about his war-time activities in Greece as an officer in the Wehrmacht.

Thomas Bernhard, the well-known Austrian playwright, may continue to fulfil his role in his play "Heldenplatz," currently on at the Burgtheater in Vienna, against his country's failings and weaknesses — not least the persistence of anti-semitism — but the general tendency is to let sleeping dogs lie. The hope expressed by Dr Franz Vranitzky, the Austrian Chancellor, is that the population's few months on the psychiatrist's bench last year have at least benefited the younger generation.

Meanwhile, the flavour of the year in 1989 is something quite different: Austria's imminent application for full membership of the European Community, which is expected to be made in July or August after parliamentary approval. There is a tendency for some enthusiasts, gripped by the current wave of Euromania, to look upon Austrian entry into the Community — if it materialises — as the answer to all the country's fundamental problems.

It is almost as if by joining the main group of Western

neutralities, an essential ingredient of the settlement leading to its independence in 1955, could be a big obstacle to membership. Though the most frequent argument to be heard in Vienna is that, if a neutral country like Ireland can join the Community, so can Austria, the Chancellor himself is well aware that things are not as simple as that in practice.

If the EC is really determined to make an issue of its ultimate political and military aspirations, Austria would find it difficult, if not impossible, to fulfil the conditions of mem-

If the EC is determined to make an issue of its ultimate aspirations, Austria would find it difficult to fulfil the conditions of membership

European nations, Austria would recapture some of the status and self-respect which it lost when the dissolution of the Hapsburg Empire after the First World War turned the country into a German-speaking rump.

Those political leaders in close contact with the European Commission in Brussels and EC Government colleagues, realise that the problem of Austria's traditional

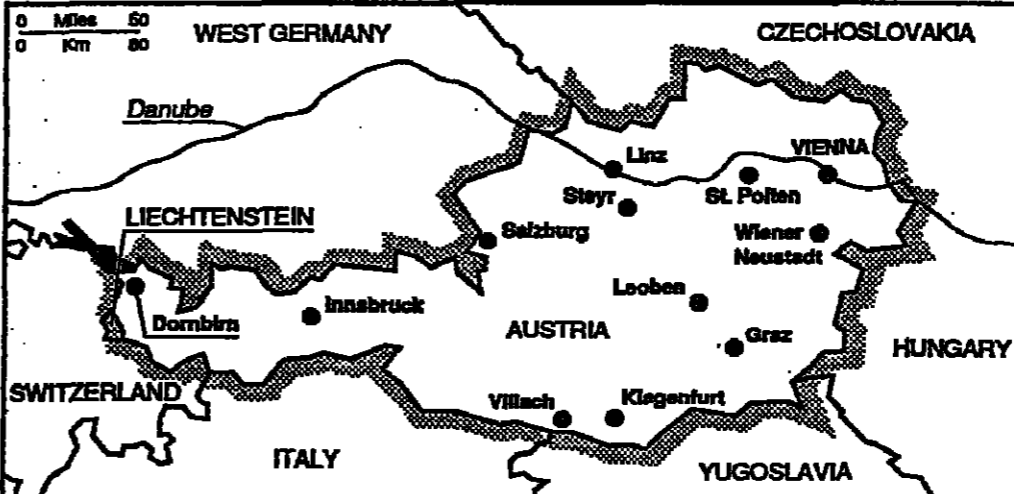
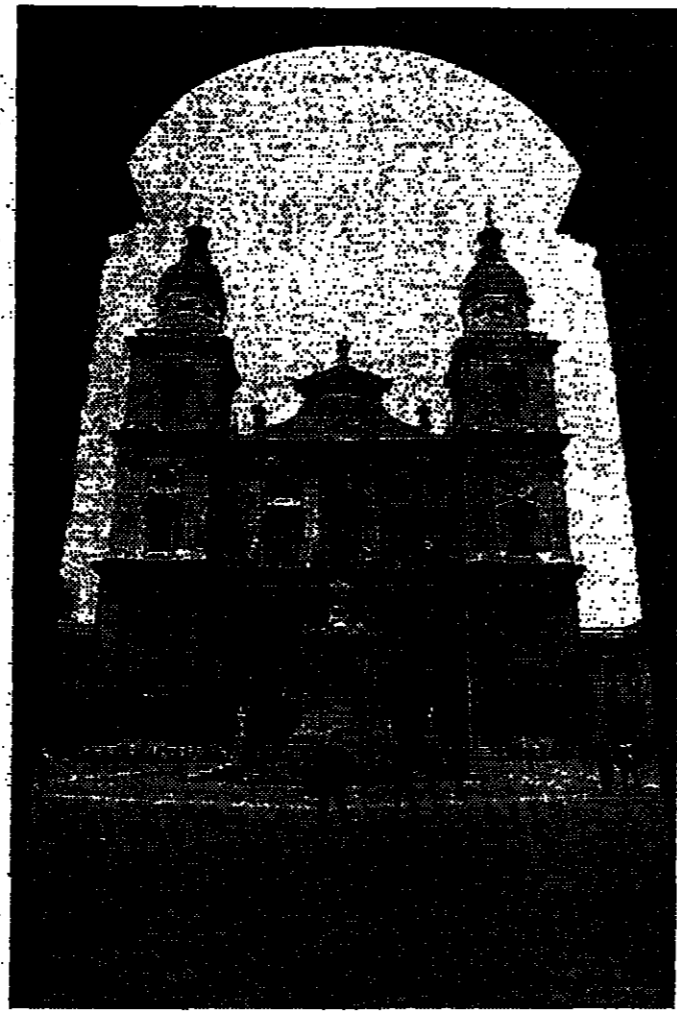
membership, even though they are not spelt out in the Community's basic treaties.

What is certain is that flexibility in the matter, if it is shown at all, will have to come mainly from the Community's side, for Dr Vranitzky has made it clear that there is no question of any modification of Austria's neutral status. Such a change is, in any case, ruled out by the interest the Soviet

Union — a signatory of the 1955 Austrian State Treaty — has shown in the maintenance of the country's neutrality.

Whatever eventually happens, Austria knows it is in for a long haul. The European Commission will take its time in formulating its recommendations to the member states. It can hardly be expected that any decision on even the opening of negotiations will be taken before the completion of the EC's internal market at the end of 1992. Even if such a decision is positive, it would take several more years to negotiate a membership agreement and still longer before Austria could hope to enter the Community.

In the meantime, the present Austrian Government and business community have gone out of their way to prepare the country both mentally and practically for such a momentous step. That has meant, in the first place, creating a genuinely competitive climate and changing ingrained ideas dating back to the Hapsburg Empire, but surviving until the present day, about political patronage and the role of the state as the ultimate provider and protector.



The imposing cathedral at Dom Platz, Salzburg

AUSTRIA

One of the great contradictions of Austria's history over the past 20 years or so is that its impressive economic record of higher growth, lower inflation and less unemployment than most other Western countries, has been achieved with such outdated and unwieldy state industrial structures and in such an archaic atmosphere of political corruption and scandals.

No doubt the absence of an effective political opposition in the inter-war years and the immediate post-independence period, when the country was ruled, as today, by a grand coalition of the Socialist (SPO) and conservative (ÖVP) parties, encouraged undemocratic practices. But the fact is that the "Proporz" system, under which the best jobs in state organisations are divided up on the basis of political affiliation, rather than

mainly the ruling Socialist Party.

The long-running Lucona affair has already led to the resignation of the Socialist Interior Minister, Mr Karl Blecha, and the Socialist president of the National Assembly, Mr Leopold Gratz, following allegations of a massive insurance fraud surrounding the sinking in the Indian Ocean in 1977 of a freighter reported to be transporting uranium processing equipment. The Socialist Party may again be embarrassed this autumn, when the case of the illegal arms sales to Iran by Noricum, the weapons division of the state-controlled steel group Voest-Alpine, finally comes to court.

These, and other scandals involving leading politicians, have helped to discredit the traditional parties, particularly in the eyes of a younger generation already bored by the lack

of political change that the special brand of Austrian consensus politics has produced. It goes a long way to explain the growing popularity of Mr Jörg Haider, the youthful leader of the small right-wing Freedom Party (FPÖ), who has begun to make serious inroads in the two main parties' strongholds in the provincial assemblies. This is particularly true for Carinthia, where Mr Haider was last week chosen as pro-

vincial governor, thanks to the support of the local conservatives, anxious to teach a lesson to their Socialist coalition partners at national level.

Mr Haider's populist style undoubtedly attracts nostalgic memories of the 1930s and the war years. But his strength is that he also manages to convey convincingly a desire to reform the political system and its corrupt practices, which gives him a much wider appeal. Since his party holds the balance in parliament, the day may well come when the ÖVP throws caution to the winds and agrees to form a new right-wing coalition with Mr Haider, though that seems unlikely in the immediate future.

It is on the economic front that the coalition has shown most dynamism, spurred on by the need to impress its putative partners in the European Community. The restructuring of the nationalised industry holding group, OeIAG, including partial privatisation, is nearly complete. Balance sheet losses, which reached a peak of Sch 12bn in 1986, were reduced to only Sch 3bn last year and the organisation is expected to make a profit by the end of 1989, only three years after the reorganisation plan was introduced.

The medium-term budget strategy, the objective of which is to reduce the federal deficit from about 5 per cent of gross domestic product to 2.5 per cent in 1992, is progressing according to schedule. In addition, an impressive income and corporation tax reform pack-

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Vienna Bourgeois	6
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KEY FACTS

Area:	83,855 sq km
Population:	7.57m
President:	Dr Kurt Waldheim
Head of Government:	Chancellor Franz Vranitzky (Socialist)
GDP per capita:	\$16,868
Real GDP growth:	4.2%
Inflation:	2%
Currency:	100 Groschen = Sch 1
Average exchange rate:	\$ = Sch 12.35; £ = Sch 22.05
Current account balance:	-Sch 5.4bn
Foreign reserves (exc gold):	\$ 4,555bn (March '89)
Government debt/GDP ratio:	50% (1987)
Leading export markets:	West Germany 36.19%; Italy 8.47%; Switzerland 7.47%; UK 4.90%
Leading import markets:	West Germany 44.3%; Italy 8.86%; Switzerland 4.44%
Industrial output growth:	6.5%
Unemployment rate:	5.3%
All figures 1988 unless otherwise stated	
Sources:	IMF, OECD

age, the most comprehensive since 1945, was implemented at the beginning of this year. It is intended to produce a simpler, fairer and more transparent tax system by lowering marginal tax rates, broadening the tax base and closing loopholes.

Whether or not Austria succeeds in its attempt to become a member of the European Community, its economy is now in a much better structural state than it was only a few years ago to face its competitors after the completion of the Single European Market in 1992. The prospect of Community membership has provided an unparalleled incentive — and pretext — for government action in areas which it might ordinarily have left alone for purely political reasons.

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AUSTRIA 3

Judy Dempsey on the grand coalition's troubles and the rise of the right wing Socialists ride out political storms

DESPITE a wave of corruption scandals, tax fraud affairs and resignations, Austria's century-old Socialist Party (SPO) led by the Chancellor, Dr Franz Vranitzky, has so far succeeded in weathering the political storms of the past year.

As a coalition, it remains committed to applying for membership to the European Community, its explicit intent on pressing ahead with a second tax reform, and it is determined to restructure the economy through a programme of privatisation and cautious deregulation.

No sooner had the inquiry opened, than the SPOs were faced with even more adverse publicity. Mr Günther Seibinger and Mr Heinrich Keller, the party's general secretaries, were forced to resign after being accused of tax fraud.

This autumn, the Socialists expect more resignations when the Noricum trial opens. The management of Noricum, the weapons division of Voest-Alpine, the state-run steel and engineering group, is alleged to have made illegal sales of weapons to Iran between 1983 and 1986.

It does not go far enough. The same goes all the more for the idea that Austria could keep in step with the EC internal market by voluntarily adopting the rules valid in the EC.



Joseph Riegler, leader of the conservative People's Party and the new Vice-Chancellor

Joseph Riegler, leader of the conservative People's Party and the new Vice-Chancellor

its share of the vote from 16 per cent to 29 per cent and its seats from five to 11. It also gained ground in Tyrol and Salzburg.

But the FPÖs won votes not simply because the ÖeVP was in disarray, or because Mr Haider had a highly sophisticated campaign machine behind him.

A LONG road with many pitfalls lies ahead of Austria now that its coalition Government has made up its mind to apply for full membership of the European Community.

serious negotiations with the EC to begin before the Community has completed its own internal market, according to timetable by the end of 1992.

What officials in Vienna call the "fundamentalists" of the EC, such as the Benelux countries, are the most reserved about Austrian membership.

But Dr Mock adds that he has not come under unacceptable pressure from the Russians. In any case, Vienna argues that Austrian neutrality has been in the interests of Europe.

For official Vienna the overriding arguments for EC membership are commercial and industrial. A hint from Mr Delors that it might make more sense for the European Free-Trade Association (EFTA) - to which Austria belongs - to negotiate as a whole a closer economic relationship with the EC, has been rejected by Dr Vranitzky on the grounds that

Vienna's bid to join the EC is likely to progress slowly

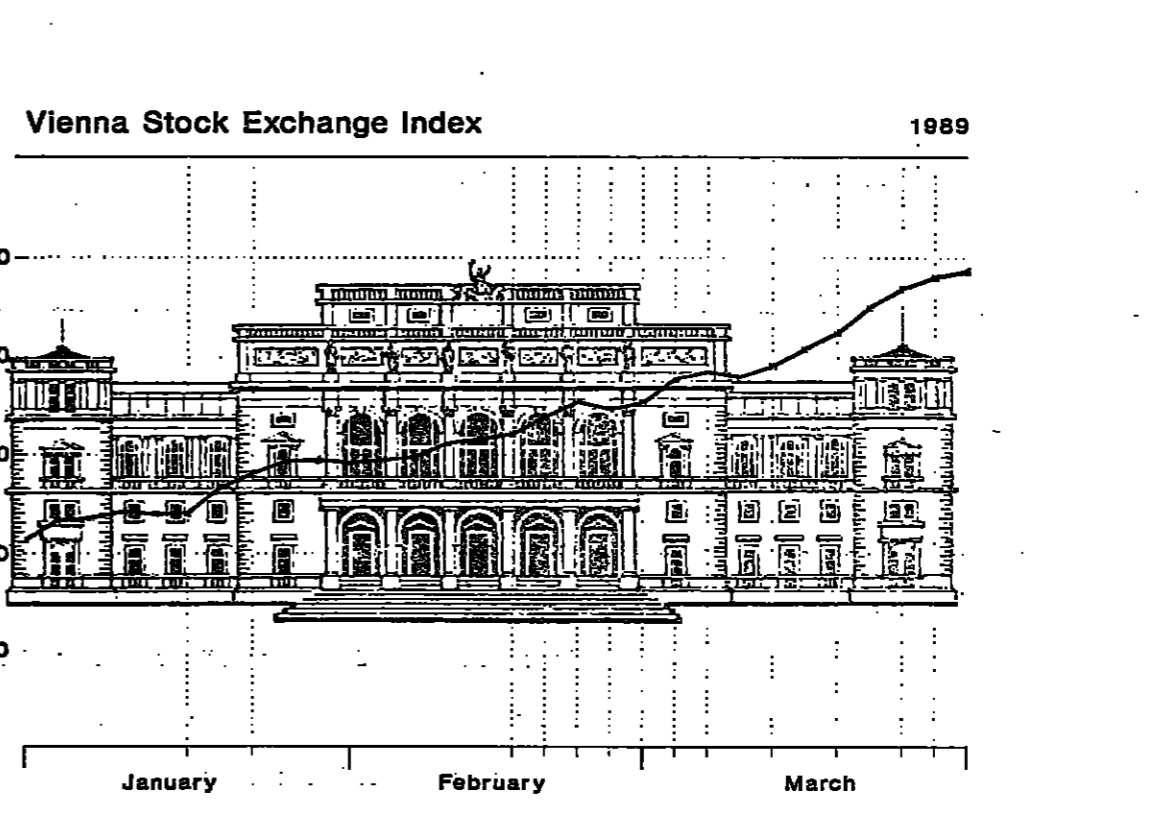
Pot-holed road to Brussels

businesses are not fully aware of the challenges they face in the Community. For instance, Austria discriminates against foreign insurance companies by imposing a higher tax on their premiums than on those of insurers registered in Austria.

It is afraid that Vienna and the entire east of the country would be marginalised within the EC. Instead, Austria should take advantage of change in Eastern Europe to play its historic function as a bridge between East and West.

VIENNA - AN INTERNATIONAL FINANCIAL CENTRE. Vienna, the capital of the Habsburg monarchy, was the administrative, economic and financial centre of an empire that exercised its authority over a large part of Central and Southern Europe.

CONTINUOUS UPSWING ON THE VIENNA STOCK EXCHANGE



THE UPSWING ON THE VIENNA STOCK EXCHANGE REFLECTS THE EXTREMELY POSITIVE KEY INDICATORS FOR THE AUSTRIAN ECONOMY.

AUSTRIA'S ECONOMIC PERFORMANCE

Table with 4 columns: Indicator, Austria 1988, Austria 1989, OECD-Europe 1988, OECD-Europe 1989. Rows include Real GDP Growth, Industrial Production, Inflation, Unemployment Rate, and Current Account as a % of GDP.

Judy Dempsey on the banking sector's increasing emphasis on foreign markets

1992 provokes a more international outlook

AUSTRIAN banks are at a crossroads. After several years of handsome profits and rapid expansion, the banks are now turning their attention towards strengthening their international presence, coping with deregulation, and even considering mergers.

Results for 1988 confirm these trends. While the country's leading banks closed with stronger balance sheets and steady growth in cash-flow, some, such as Creditanstalt-Bankverein, the largest bank, had noticeably smaller profits. This was due partly to provisions for international investments and the poor performance of some of its industrial affiliates, most notably Steyr-Daimler-Puch, which accounted for its comparatively smaller post-tax profits of Sch 1.02bn.

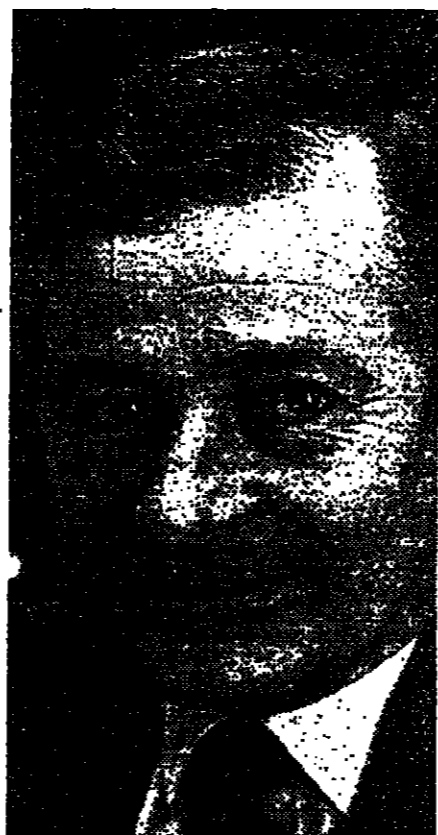
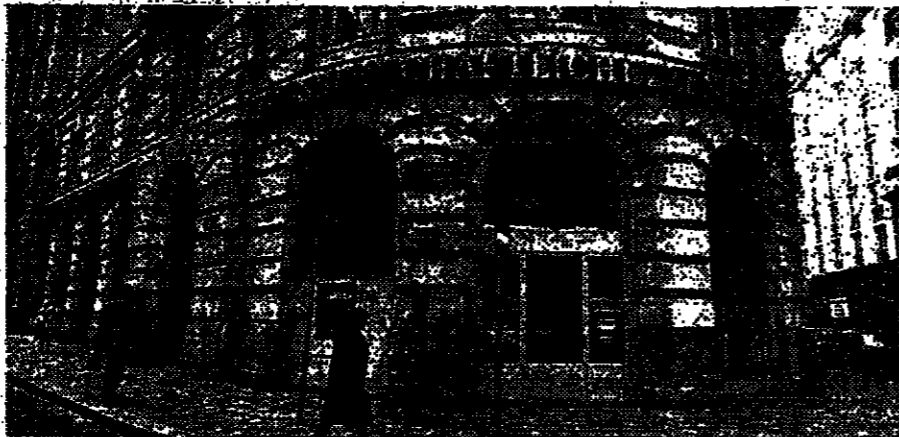
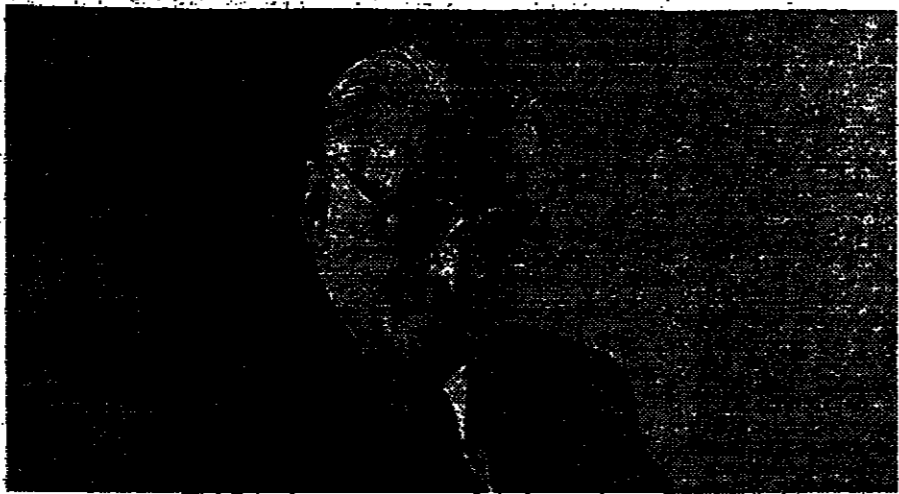
However, in the international arena, the bank was increasingly active. Foreign business earnings accounted for 45.8 per cent of its balance sheet total. But more significantly, two leading Japanese institutions, Sumitomo Life, one of the country's largest life insurance companies, and Mitsubishi Trust, the leading trust bank, each bought stakes of less than 5 per cent in Creditanstalt.

The deal forms part of the strategy of Mr Guido Schmidt-Chiari, the chairman, in developing the bank's operations in Japan as well as attracting Japanese institutions and private interest in investments in Austria. The bank's Hong Kong office was upgraded to full branch status as part of this strategy.

Girozentrale, the second largest bank whose business is concentrated on financing, not on retail banking, also has its eye more on the international market.

In 1988, 43 per cent of its total assets was accounted for by foreign earnings. Laenderbank and Die Erste, the country's oldest savings bank, both moved in the same direction, each with 37 per cent and 33 per cent of its assets coming from international business.

The greater emphasis on expanding into foreign markets seems to be an indication of the banking community's concern with the creation of the European Community's Single Market in 1992. Bankers say there is every likelihood that



Hellmuth Klaufus (top left); Gerhard Wager, chairman of Laenderbank (above); and the farming banking sector's central bank, Genossenschaftliche Zentralbank

European banks, whose presence is hardly noticeable in Vienna, will move quickly into Austria.

Such possible developments formed part of the background to a significant deregulation of banking activities, introduced on February 1, which was aimed primarily at bringing the Austrian banking system more into line with other West European countries.

The liberalisation measures mean that Austrian residents will be able to invest abroad without the prior consent of the National Bank. Residents will be free to buy insurance policies from foreign insurers and invest in property outside the country.

In addition, Austrians will be able to acquire shares and interests in foreign companies. Borrowing has also been relaxed to such an extent that Austrians will be free to borrow foreign currency from

non-Austrian banks and will only have to notify the National Bank when any loan exceeds three years. The limit on money transfers out of the country has also been increased from Sch 50,000 to Sch 100,000 (\$7,500).

The easing of these exchange controls will inevitably lead to greater competition among the banks. But in addition, given their comparatively small size, it has already opened up two major debates about Austrian banks' future ability to compete in an increasingly competitive international market.

The first of these debates is focused on the Socialist-led Government's plan to sell off 49 per cent of its holding in Creditanstalt and in Laenderbank, in which the Republic holds a majority stake of 64.5 per cent and 53 per cent respectively.

However, even if the Republic reduces its stake to 51 per

cent, or possibly reduces it still further, the banks will not be free of political influence, since many of the existing shares in private hands are in fact non-voting.

The reasons for this go back to 1957 when the then Finance Minister, Mr Reinhard Kamitz, cautiously privatised sections of these two banks. In each case, the Republic sold off 40 per cent, but 30 per cent of those shares were non-voting and had a guaranteed dividend. The remaining 10 per cent was bought by politically reliable institutional investors. "That kind of privatisation ensured that political influence in the banks remained intact," commented a Viennese bank director.

The feeling at the time was that the Austrians, scarred since the First World War by several severe economic crises, would have to be wooed carefully back towards taking

risks. But times are slowly changing. As Creditanstalt and Laenderbank raise more share capital by issuing voting shares, clearly aiming at the magic 51 per cent figure, some of the country's top bankers relish the thought of being free from government interference in the appointment of the boards. But they readily admit that such interference can only disappear when the status of the non-voting shares are changed to full voting shares.

Any such decision depends on Mr Ferdinand Lacina, the Finance Minister who has to weigh up the ideological and political costs of such a transformation, with the prospect of the two main political parties losing their influence on the banks' managing and supervisory boards.

The privatisation debate is taking place at the same time as discussions about mergers, which have rarely played a significant role in Austria's economy or banking sector. Plans are afoot to merge the Laenderbank with the Zentralsparkasse und Kommerzbank or Z, Austria's largest savings bank which is run by the politically powerful (socialist) City of Vienna.

Both are very difficult animals. Laenderbank, with total assets worth Sch 213.9bn, has a growing international presence and an increasingly strong securities division. However, it remains weak on financing, since its savings accounts are small. In contrast, Z, with assets exceeding Sch 221bn, has more than 2.4m savings accounts worth Sch 82.9bn. A merger, it is argued, would complement both banks. It would also entail the Republic completely selling off its stake in Laenderbank.

The marriage would inevitably produce a spin-off effect since it would raise questions about the future structure of Girozentrale (GZ), the central bank for the country's 126 savings banks. One of the ideas being mooted is that Z, which holds 24 per cent of GZ's shares, would sell those shares to Die Erste, which owns 17 per cent of GZ, a move which would make Die Erste into a relatively powerful force in the savings sector.

But Mr Hans Haumer, the chairman of Die Erste, who next October moves over as chairman of GZ, also believes it is time to reassess the whole role of the savings banks. With much closer links between Die Erste and GZ, he advocates turning GZ into a holding company which would provide a much more flexible co-ordination of funds, resources and reserves as well as the possibility of the savings banks gaining the right to raise equity capital.

PROFILE: HELLMUTH KLAUHS

Committed to deregulation

MR HELLMUTH Klaufus, the president of the Austrian National Bank, is determined to bring the country's banking system into line with European Community standards by 1990. Less than a year in Austria's best-paid public sector job, Mr Klaufus has already embarked along the road towards deregulation and liberalisation of a sector which, for years, was noted for its lack of competitiveness and over-regulation.

Mr Klaufus, aged 61, has brought to the National Bank 31 years of experience from the Genossenschaftliche Zentralbank, the central bank for the agricultural banking sector. As chairman of that bank for 19 years, he is often regarded as a man more attuned to acting cautiously than taking bold, innovative steps.

Despite this reputation, he has surprised his colleagues in his commitment, if not conversion, to maintaining the present pace of deregulation. "Of course, it is not possible to do all these things in one step. However, we are moving along the road of deregulation in line with EC norms," he says.

Mr Klaufus recalls decisions implemented last February when, in one stroke, the National Bank swept away 40 regulations. In doing so, it permitted Austrians to acquire shares and interests in foreign companies, as well as allowing them to buy foreign property. Austrians are now also permitted to borrow abroad, in foreign currency, provided the term of the loan exceeds three years. However, short-term borrowing still requires the prior consent of the National Bank.

Speaking in his office in Otto Wagner Platz, named after one of Austria's finest architects of the turn of the century, he said that by the end of this year, restrictions on residents who want to buy gold bullion and foreign gold coins will also be lifted. In addition, he expects that the present requirement to deposit with an Austrian bank foreign securities purchased by residents, will also be lifted.

But Mr Klaufus realises that all such steps have to be carefully weighed against political considerations. He has in mind

Austria's banking secrecy laws, which, along with Switzerland, are among the tightest in the world.

Under the current regulations, banks can be sued for damages or prosecuted for revealing to third parties information obtained as a result of their business relations with a customer. As for non-residents, they can acquire Austrian and foreign securities anonymously. Such tight secrecy rules recently raised a few eyebrows in the US when Austria, because of its secrecy laws, was one of the few countries which declined to sign the United Nations Drug Convention advocating stricter controls on money-laundering.

However, Mr Klaufus seems confident that Austria can get around this problem without compromising its special secrecy regulations or risking an outflow of capital. The banks, he says, will in future treat anonymous deposits which are above a certain amount differently, depending on whether they come from Austrians or from foreigners.

But not all his attention is focused on making the country's banking system compatible with international standards. When asked about the National Bank's notorious reputation of recruiting personnel on the basis of parity between the Socialist and the conservative People's Party, Mr Klaufus says the system will "eventually change".

The President of the National Bank himself is a victim (or beneficiary) of this system. As a result of bickering among the two main political parties, he was eventually appointed three months after Mr Stefan Koren, the former chairman, died in January 1988.

He has also turned his attention to the mint, which the Bank last year bought from the Republic for Sch 5bn. "We now want to control the volume of coins," he says, revealing that the bank plans to issue next autumn a bullion coin for the Vienna Philharmonic and another to commemorate Gustav Klimt, Vienna's famous fin-de-siecle artist.

Judy Dempsey

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